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BusinessWeek

EMBER 1, 1993

A MCGRAW-HILL PUBLICATION

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GM

CAN JACK SMITH FIX IT?

PAGE 126



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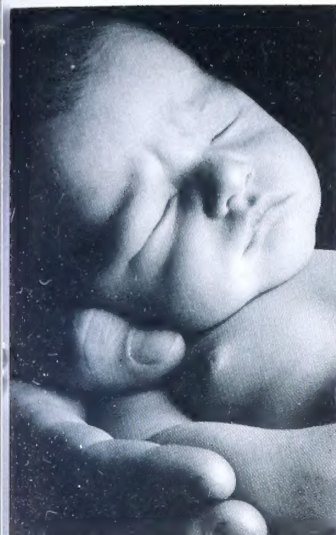
OCT 22 1993

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SPECIAL REPORT
WALL STREET'S
GLOBAL
POWER

PAGE 102

Every day,
someone
reminds us
what kind
of business
we're in.



Every day, the small cry of a newborn etches that reminder on the delivery room wall. Every day, phone calls from customers living through every problem imaginable inscribe it on our minds: It is our business to care. Though CIGNA consists of many separate, highly

focused divisions, each with its own distinct area of specialization, CIGNA is also 50,000 people with the very same job. Caring about what happens to our customers. Fact is, there are 230,000 companies, 10 million healthcare members, 5 million people who've entrusted us with \$32 billion worth of retirement nest eggs, and many others, who are counting on us. And while we're not perfect yet, our commitment to caring, and to getting a little better at it each day, is something we're going to try to prove every chance we get. By sending checks to storm victims as quickly as possible. By using innovative therapies and coverages to get disabled workers back on their feet sooner. Or just by remembering that on the other end of the phone line is a human being, not a file number. Because when you're in the business of caring, you can't just care about the big things. You've got to care about the little ones, too.



CIGNA

A Business of Caring.

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Maximum Value. Minimum Hassle.

All year, you look for every advantage for your business. Now AT&T introduces one advantage that'll come looking for you. Automatically.

It's called Maximum Advantage, the latest step in our ongoing commitment to help support *your* business with an extra measure of personalized service. And value.

It's coming soon.

Right now, AT&T is looking for ways to maximize your long dis-

tance service by analyzing your calling patterns.

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If you would've saved money

by being in a different plan, we not only tell you on the statement, we'll credit you the amount you would have saved.* Automatically. And, if appropriate, we'll invite you to switch to that plan.

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We'll help you manage you

*Difference, if any, between your eligible usage and usage at comparable rates for certain AT&T calling plans with similar access type, term, and revenue commitments. Based on AT&T F.C.C. Tariffs No. 1 and No. 2. Does not take into account factors such as seasonal calling trends. All plan-qualified usage excluding billing adjustments, promotional exceptions. Assumes usage remains at current level. % savings based on recommended service.

Maximum Advantage.

AT&T MAXIMUM ADVANTAGE

QUARTERLY STATEMENT



Mr. Mort Keshin
President
Mort Keshin & Co., Inc.
10111 Northam Blvd.
Roshar, NY 11570

Account Number

BTN 908 555 1212

Date

11/95

\$131.20

Maximum Advantage is our guarantee that you always get AT&T's lowest price.* After any quarter in which you have at least one month of eligible usage over \$200, you will receive an updated statement outlining your optimum level of savings, quality, and value based on our analysis* of your usage patterns during qualifying months.

Automatic Credit Calculation

Introductory Triple Bonus - Credit based on August billing information multiplied by 3

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What You Could Have Paid

Credit

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You will **automatically** receive this triple credit on your December bill.

\$131.20

% You Could Have Saved

Additional Savings Recommendations

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5.5%

10%

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*Minimum usage for these recommendations.

To take advantage of any of our recommendations, or to ask any questions, contact your Account Executive or call 1 800 537-8700. Please see the back of this statement for details on our recommendations and instructions on how to get more information.

If you would have saved money by being in a different plan, we'll automatically credit your account

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AT THE FRANKFURT AUTO SHOW: FOR CEO SMITH (SECOND FROM RIGHT), THE TASK IS TO DUPLICATE GM EUROPE'S SUCCESS IN THE U.S.

Cover Story

126 CAN JACK SMITH FIX GM?

By the sluggish carmaker's standards, the new CEO is moving like a Corvette. In his first year, Jack Smith has simplified General Motors' byzantine bureaucracy, slashed payroll, and sold off its auto-parts operations. But he'll have to move even faster to win back market share from Ford, Chrysler, and Japanese competitors. For the reserved Smith, the key will be spreading his vision throughout GM

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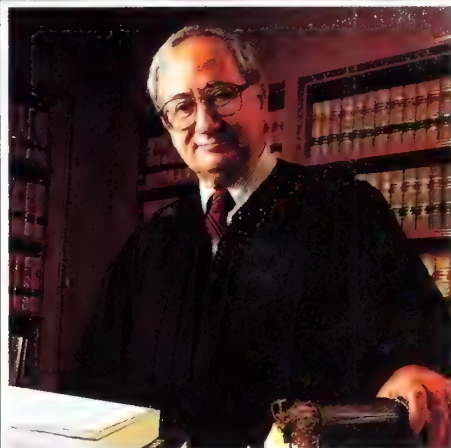
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Up Front

TALK SHOW

I think bigness is the antithesis of creativity.

— Entrepreneur John Malone, who will be the No. 2 executive in one of the world's biggest communications companies once Bell Atlantic buys his TCI and Liberty Media

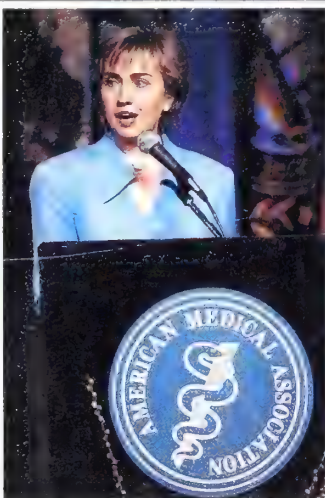
EDITED BY LARRY LIGHT AND JULIE TILSNER

CAPITAL INVESTMENTS

HEALTH STOCKS' PAIN IS HILLARY'S GAIN

Hillary Rodham Clinton seems to be profiting from the pain her proposals are inflicting on health-care stocks, which have plummeted in 1993. She's an investor in Valuepartners I Fund, which has a big stake in the decline of health-care stocks.

Valuepartners is a hedge



CLINTON: Not off the hook

fund, which means it regularly shorts stocks. So the more Clinton's proposals drive down health-care stock prices, the more she prospers. And the

fund was up 14% for the first eight months of the year, says another investor in it. This performance is almost twice as good as that of the S&P 500 index.

Clinton owns \$100,000 worth of Valuepartners. According to the most recent public filing with the Office of Government Ethics, about a fifth of the Valuepartners portfolio was health-care stocks at yearend 1992.

The manager of the Little Rock-based fund, Friend of Bill William R. Smith, declined to comment on the fund's performance except to say that he has been successfully selling short some health-care securities.

Clinton, who claims she was unaware of the fund's health-care holdings until the First Couple filed a financial disclosure in May, says through an aide that no conflict of interest exists. Reason: She is not a regulator, but merely a policy planner whose broad proposal isn't targeted at individual companies and will be altered by Congress anyway. Further, the White House says, in July the Clintons placed all their holdings—about \$1 million—in a blind trust. But the trust still contains health-care stocks. *Owen Ullmann*

THE AD GAME

KILL DE WABBIT



THUMPER: Will the drum stop?

The Energizer Bunny is headed for the big cabbage patch in the sky. In Eveready Battery's recently unveiled campaign, the furry pink pitchrabbit becomes an

assassin's target. A rival battery maker, played by perennial heavy Rip Torn, hires men ranging from King Kong to Dracula. Although only one of the six spots has been shown thus far, a source close to the \$20 million campaign says the bunny does get killed. But remember Superman and Bobby Ewing.

One expert expects mere mortality to silence the drum of the indefatigable cottontail, who has been on the air since 1989, at times intruding into seemingly serious commercials.

The extremely popular ads are good for Eveready and its quirky Venice (Calif.) ad agency, Chiat/Day. The Energizer is the No. 2 alkaline battery in North America, with revenues up 7% in 1992. Eveready and Chiat/Day wouldn't comment on the ultimate fate of the bunny.

AFTERLIVES

AULD WANG SYNE

Who is most identified with the decline of one-time highflier Wang Laboratories? Frederick Wang, son of An Wang, the late founder. Fred presided over the computer maker from 1986 to 1989, when he stepped aside amid complaints about his

management and mounting financial losses. The Lowell (Mass.) company just emerged from bankruptcy, pared down.

But guess who's on the new nine-member board? That's right, Fred Wang. "This company is so strongly identified with the Wang family," says C. Hall Swaim of Hale & Dorr, which represents Wang Labs' creditors.

Wall Street cynics are sure there's some other reason, but the Auld Lang Syne story seems valid. The Wang family, which once controlled 75% of the board, is cloutless today, its equity interest evaporated. The year-old Fred, who formerly earned \$435,000 yearly, now gets just \$20,000 now, plus \$1,000 per monthly board meeting. He declined to comment on his return.

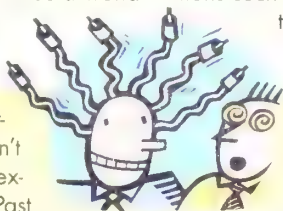


WANG: Salary

REALITY CHECK

MERGER MAVENS SAY the current frenzy, where Bell Atlantic swallows Tele-Communications Inc. and Viacom (or QVC) takes over Paramount, begins a brave new multimedia world for consumers and investors alike. Coming soon: a lucrative mar-

ket of interactive couch potatoes who can click into 500 channels, research arcane topics, and shop for Christmas. Only massive combinations such as Tele-Atlantic and Viamount have the technical knowhow and financial heft to make it happen.



IN REALITY, that bright tomorrow is uncertain. Most people can't program a VCR, so demand for exotic features can't be assumed. Past experiments in interactive TV have failed. And broadcast media are not a growth industry. In the past 10 years, the average time spent with media has gone up a mere 1.6%. Why

does Wall Street see the hot merger targets as prizes? TCI has never turned an annual profit; Paramount has a meager 8% return on equity.

The TCI deal is a pricey 12 times cash flow, while the Viacom-Paramount bid is a still richer 17, and QVC-Paramount 21, meaning stockholders shoulder big risk. Welcome to the future.

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†Fly British Airways round trip transatlantic in full fare Club World between October 15, 1993 and March 31, 1994 as a new Chase/British Airways Visa cardholder and you'll earn a one-time 25,000 mile bonus. Offer not available in conjunction with any discount coupon, upgrade or free travel award and cannot be combined with any other British Airways bonus mileage offer. Other restrictions apply.
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Up Front

PRODUCT PEEK

A ROOM WITH NO VIEW, BUT 727s GALORE



The Japanese are great ones for copying American products, then improving them. Run that in reverse for what in Japan are felicitously called "coffin hotels," stacked catacombs of prone-only airport rest chambers. The U.S. version—now found in the Minneapolis, Miami, and San Jose airports—is less Edgar Allan Poe claustrophobic.

Named the Ziosk, it's a 7½-by-9½-foot roomette, located right off the airport waiting area. Not a hotel room, exactly, but it has a couch, TV, and radio alarm clock. Not an office, but there's a telephone, fax machine, and modem data port.

Fortune Hotels in St. Petersburg Beach, Fla., which owns and markets the units, charges \$13 per hour for the first hour and \$7 for each hour after that. The average stay is 90 minutes. In the debut at Minneapolis-St. Paul International Airport, Ziosk usage soared from 28 stays in August, 1992, to 241 last April. More than 71% of the customers were male business executives. The airport took 10% of gross sales for rent. The most popular day of use? Thursday. "Don't ask us why," says an airport official.

What about those lonely travelers who rent a Ziosk for slightly, um, seamier purposes? Don't try it in Minneapolis, where police keep an eye on Ziosks for "nonbusiness" usage. *Bob Andelman*

FAT CITY

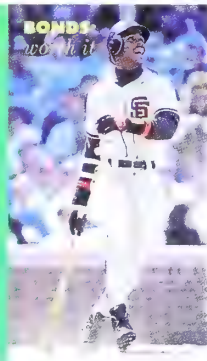
OVERPAID? IT AIN'T SO, JOE

Sports-bar cynics take heed: Baseball players are worth those megasalaries they pull down. That's the word from student researchers at the Rutgers University busi-

ness school in Camden, N.J. As part of an MBA project, students compared the records of 14 top-earning players with a sample of 14 average-paid players. (That average is \$1 million, folks.)

Result: Top-earners outperformed the others by 38%. The study looked at three seasons ended in 1991, and recent Rutgers MBA Suzanne Tortorelli updated the num-

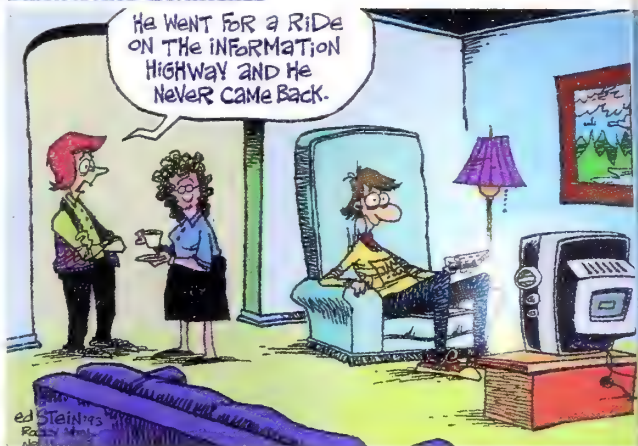
PLAYERS WHO EARNED THEIR KEIF		
Name/Team	1992 Salary	1993 Salary
1. BARRY BONDS/SAN FRANCISCO GIANTS	\$4.4	\$4.4
2. KEN GRIFFEY JR./SEATTLE MARINERS	\$4.0	\$4.0
3. Lenny DYKSTRA/DETROIT TIGERS	\$3.5	\$3.5
4. JOHN KRUE/PHILADELPHIA PHILLIES	\$2.5	\$2.5
5. BARREN DAULTON/PHILADELPHIA PHILLIES	\$2.4	\$2.4



bers for us through this year. The Rutgers study actually measured scoring performance, so pitching wasn't covered. The formula totaled hits, RBIs, and runs per game, divided by at-bats per game

and multiplied by games played. That way, players weren't penalized if they lost time due to injury. The table here shows the best performers in the Rutgers sample. Most financial heavy hitters (earning more than \$1.75 million) shone. Consider Barry Bonds of the San Francisco Giants, who hauled down \$4.4 million this year. In 1993, the left fielder racked up 181 hits, 129 runs, and 123 RBIs and led the National League in home runs. Contrast that with middle-income player Ron Karkovice, the Chicago White Sox catcher who earned the \$1 million average this year. True, he put in 20% fewer appearances than Bonds (128 to Bonds' 159), partly because he was on the disabled list for three weeks at midseason. But Karkovice's performance lags even on a proportional basis. He logged half as many hits (92) and runs (60) as Bonds and fewer than half as many RBIs (54). *Joseph Weber*

DRAWN AND QUARTERED



LESS IS MORE?

NEW AND IMPROVED TWADDLE

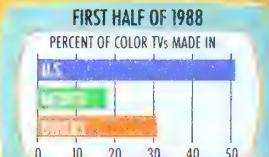
Price wars and erosion of brand loyalty aside, some well-known products out there are still doing a shuffle popular in the inflation-wracked 1970s: slipping in a price increase by reducing the size of the product, charging as much as before, and calling it "new and improved." Examples? Sugar-free Velamints



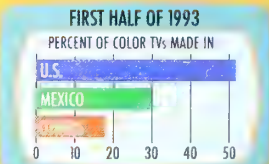
reduced the size of its mints and kept the price the same. They're round now, 1.25 square, and come in 12-piece packages that weigh 0.85 ounces instead of the old 0.85. A Velamints spokeswoman says consumers found the old-style mints too big. Sales deal from Brut deodorant spray, which shrank from a five-ounce can to a four-ounce can, but bore the legend: "No More Brut!" More fragrance explains the company.

THE BIG PICTURE

MI TV ES SU TV?



Worried about manufacturing jobs flowing out of the U.S.? At least most color TVs are still made in this country. But now, the sources of the imports have changed. Japan used to be the leader. Today, plants in Mexico, mostly Japanese-owned, are producing 30% of all color TVs imported into the U.S., up from 18% five years ago.



DATA: COMMERCE DEPT., TELEVISION DIGEST

OTES

Storage weekly pay (today's dollars): \$461. 1972 savings rate: 9.0%. 1993 average pay: \$372. 1993 savings rate: 4.0%.

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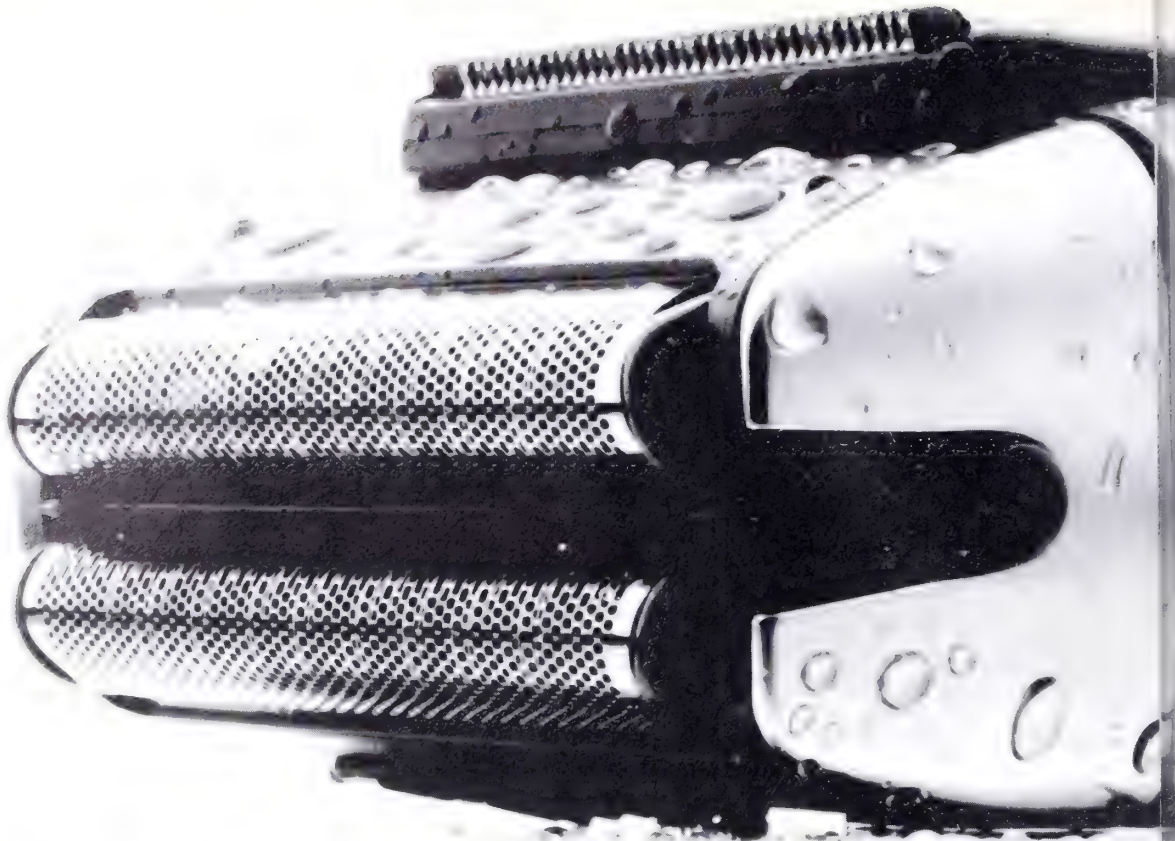
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THIS HAS TWIN INDEPENDENT HANDLES BEAUTIFULLY IT SHOULD REQUIRE

Meet the Panasonic Smooth Operator II Wet/Dry Razor. It's an extraordinary piece of engineering technology that lets you decide if you'd like to shave wet or dry



DON'T TRY THIS WITH ANY ORDINARY PLUGGED-IN RAZOR

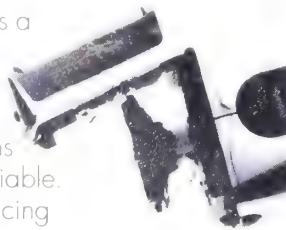
Panasonic believes if you're going to spend your hard-earned money on an electric razor, that razor should give you the option of shaving wet with lather, or dry.

The Smooth Operator[®] provides a close, fast and comfortable shave when used dry—you may ask yourself, "why bother with water and lather?" The answer is simple—hot water softens the skin and makes the beard more pliable. Lather lubricates the skin (thereby reducing

friction) and expands the beard bristles to expose more hair root. Shaving with any Smooth Operator razor using water and lather unites the comfort of an electric shave with the closeness of a warm wet shave, giving you the advantage of both worlds. Naturally, it's fully immersible for easy, thorough cleaning.

TWIN INDEPENDENT SUSPENSION

The Panasonic Smooth Operator II is equipped with a state-of-the-art twin independent suspension system known as FLOAT CONTROL. This allows its two shaving heads to more efficiently follow the contours of your face, moving up and down independently of each other. The FLOAT CONTROL™ system also helps





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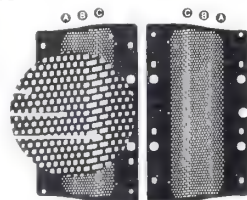
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MORE BACKGROUND ON THE CEO 1000, PLEASE

Regarding "The Corporate Elite" (Special Report, Oct. 11), we (four MBA candidates at Wharton School, class of 1995) wonder about the characteristics and lifestyles of the Top 1000 CEOs. In an age in which we attempt to balance life issues and social responsibility, we feel that the article seemed obscurely one-sided, describing only the positive backgrounds of top CEOs. Many of us, men and women, ponder the probability of both making it to the top and having balance among personal, professional, and avocational interests. We ask ourselves: "What sacrifices must we make?"

Next year or next issue, please don't forget to tell us the statistics of sacrifice it took to get to the executive office. Then, we will be able to make more informed, more realistic decisions on career, family, and social leadership.

Brett R. Hildreth
Dave Morris
Dennis Chen
Susan Pass
Philadelphia

The good news is, they're all older than I am and thus will need to be replaced. The bad news is, I don't stand a snowball's chance considering the percentage of females in this group.

Toni Ferrin
Blue Springs, Mo.

PROSE AND CONS OF 'ECONOMICS NOVELISTS'

In "The next economics novelist: Model maker or storyteller?" (Economic Trends, Oct. 11), your dichotomy is vacuous at best. Consider such great Nobel laureate "storytellers" as James Buchanan and [this year's winner] Douglass North or such outstanding Nobel laureate "model builders" as Gerard De-Breu and Lawrence Klein. All have systematically investigated principles of economic activity, developed testable hypotheses of their models of behavior, and derived predictive implications. What differs between these groups is not their scientific credentials but their language of discourse—prose vs. mathe-

matics. Any first-rate economic scientist would agree that the optimal language style and degree of formality differ according to the phenomenon being explored.

Susan Feigenbaum
David R. Foray
Professors of Economics
University of Mississippi
St. Louis

CANCEL HALF MY SUBSCRIPTION

After eight years of Reaganomics continued under Bush for another four years while both hid from the festering domestic problems of this country you have the temerity to declare that Presidents Reagan and Bush raise against the big-spending Democrats 12 years ("No smoke, no mirrors," Top the News, Oct. 11). But it wasn't Democrats who pushed Congress into trying the supply-side theory that led to the largest deficit in our history. But Reagan left a legacy for our children that we would rather do without, than you.

Your article is certainly not new. Rather, it is a thinly veiled and all-too-frequent slam in your magazine at Clinton and the Democrats, as if you can't stomach the thought that the Republicans are out of the White House. If it were not for the many fine, new worthy articles on business, economics and finance in your other sections I would ask you to cancel my subscription.

William F. Hummel
Los Angeles

WHAT THAT 'COUP' WILL COST ALABAMA

In snaring the Mercedes-Benz plant at a cost of \$330 million in incentives or \$220,000 per job, Alabama has just mortgaged its future ("Why Mercedes is Alabama bound," Industries, Oct. 11). In one fell swoop, the state has given away the equivalent of 2.3% of its base. With a per-capita income almost 20% below the national average, there are revenues Alabama will sorely miss. They're also revenues that won't be available to upgrade Alabama's underfunded public schools, social services

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SOMETIMES WHEN YOU HAVE A GREAT IDEA YOU WANT TO TELL THE WORLD



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Readers Report

and physical infrastructure, which ultimately have much more to do with economic development than the placement of money.

When will Atlanta and other "Third World" countries in their quest for industry?

Herbert L. Weinstein, Director
Center for Economic Development
& Research
University of North Texas
Ft. Worth, Tex.

'HOW DO YOU MEASURE DISCRIMINATION?'

In reference to "killing out unfair lenders" (David Aron, Oct. 11), bank officials agree that discrimination in all of its forms is illegal, and they're working to end any trace of it from the lending process. But how do you measure discrimination? Regulators and lawyers need to assess all the variables that go into making a loan, from a borrower's credit history to debt load. Loans are made, and loans are turned down, for sound economic and credit reasons.

Donald C. Ogilvie, Executive Vice President
American Bankers' Ass'n
Washington

CORRECTIONS & CLARIFICATIONS

"John Faye, CIO, will stay on" (In Business, This Week, Oct. 11) should have said that CIO John Pomerantz will retain all of his operating duties except those that are finance-related.

CROW'S NOT ON THE MENU AT CRAY

Your "Cray eats crow" (Information Processing, Oct. 4) story was very misleading. Consider:

■ The headline suggests we made a recent, humbling decision. We didn't. We announced our decision to develop a relatively parallel processing (MPP) product more than two years ago.

■ Customers do not need to have a traditional Cray supercomputer in order to use the new T3D system. For new customers, we offer T3D systems combining our new and traditional capabilities in one cabinet.

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We are in talks with more than a dozen additional prospects, and we expect to be the leading MPP vendor by the end of 1994.

I hope you will keep closer track of reality in this market! Maybe then "crow" in your headline will land on someone else's plate, where it belongs.

Franklin J. Pa...
Vice-President
Corporate Communication
Cray Research
Eagan, MN

Editor's note: Cray declined to provide numbers on new orders at the time this story was written.

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Books

THE FOUNTAIN OF AGE

By Betty Friedan

Simon & Schuster • 671pp • \$25

OLD FRIENDS

By Tracy Kidder

Houghton Mifflin • 352pp • \$22.95

DO THE SUNSET YEARS HAVE TO BE GLOOMY?

America is graying. Today, about 13% of Americans are 65 or older. Many will live at least two decades beyond traditional retirement age in general good health. At the same time, as more people live into their 80s and beyond, more will face infirmity and need support and assistance.

What does all this imply for the ways Americans organize society, plan for aging parents, and consider their own lives? With the debate over health-care reform and the clamor to revise Social Security, changes in the social compact are in the air. But a larger discussion is needed. How to best help the elderly use their skills and live satisfying lives? How to use social resources efficiently and humanely? How to get the best out of ourselves at every age?

Two new books offer a starting point

for considering such issues. Both are concerned with health and sickness, the segregation of the old, and control vs. dependency. But Betty Friedan's *The Fountain of Age* optimistically reflects on sources of growth, vitality, and meaning for those no longer young, while Tracy Kidder's *Old Friends* paints a bleaker picture of aging as decline and the closing off of options.

Still, Kidder's readable portrait of two men in a nursing home makes the reader admire the ways sick old people adapt. Friedan's vision, emphasizing competence, growth, and change, may leave out many who cannot keep up.

Friedan, of course, is the author of *The Feminine Mystique*, the 1963 polemic that helped catalyze the modern feminist movement. In the early 1980s, approaching 60, Friedan began musing on

new questions. Do longer lives have an evolutionary purpose? Why do women age differently than men? Is age a problem? Can it represent new opportunities? Do fixed roles, rules, and expectations limit horizons for the old, as the limited prospects for women?

The key problem, Friedan concludes, is equating age with decline and pathology, which becomes a self-fulfilling prophecy. On the contrary, she argues, old people have much to offer and to grow and change. In fact, moving beyond the competitiveness, child-rearing, and sexual preoccupations of youth, middle age allows for new challenges and directions.

As Friedan takes us along through her years of research, the path is sometimes repetitious and overly long. But there are rewards. Her book is bursting with ideas for "new paradigms" in health care, communal living arrangements, and flexible employment. It shows us multigenerational neighborhoods that work for old and young. It describes elderly people involved in volunteer service, scholarship, and play exemplifying activity, purpose, and quality of life.

Friedan's personal explorations are compelling. She joins a challenging



Friedan reflects on sources of vitality and growth for the aging, while Kidder sees old age as decline



Bound trip and launches an academic career. She reflects on her mothertime at Leisure World, an old age community that buzzed with activity but cut off from the world—a flaw, she concludes. She reaffirms the importance of family and home but argues that discovering new places and friends promotes growth. The book is filled with inspirational tales of people remaking themselves after 60—exploring new interests, finding second careers, traveling, and discovering intimacy.

Most of us would want that kind of old age. But as models, Friedan's subjects are problematic. Nearly all are lifelong achievers with uncommon financial resources—successful professionals, businesspeople, dynamic upper-middle-class women who built careers after raising families. Most are refocusing lives that were already active and directed.

This hardly detracts from the interest of their stories. But what about retirees living on small fixed incomes, for whom work meant deadly repetition and lack of

power, not creativity or control? As such people age, unsafe neighborhoods, unmanageable stairs, tight budgets, and isolation—more than poor self-image—are their constraints. And what about those who become seriously infirm? Friedan wants more home care and community support to keep them on their own. Clearly, making age the “adventure” she prescribes will take far more commitment, time, and money than society has yet been willing to bestow.

There's no sense of age as adventure in *Old Friends*, an unblinking record of a year in a nursing home. Unlike Friedan, who asserts that many problems of age are actually problems of, say, nutrition or attitude, Kidder believes age and illness are inextricably linked. Denying that link, he says, strips the old of dignity and solace when they decline. “Successful aging,” he writes, “leaves out a lot of people. . . . Ultimately, of course, it leaves out everyone.”

Kidder, who has found fresh stories in such disparate topics as the creation of a computer (*The Soul of a New Machine*) and teaching (*Among Schoolchildren*), here turns his gaze on an unloved but ubiquitous institution. Nearly half of all Americans past 65, he writes, will spend time in a nursing home.

Linda Manor in Northampton, Mass.,

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Books

is certainly not the worst of these. It is clean and well-staffed, with activities and gathering places. But the atmosphere is stultifying and institutional. Days are structured around routine and expedience, not the purpose and possibility Friedan advocates.

In Kidder's neutral but absorbing presentation, this seems not exactly to be regretted, since many residents do not manage more. Indeed, Kidder writes that while some newcomers die within weeks of arriving—perhaps of broken hearts, he speculates—most of them are able to stabilize or improve. Still, he paints the human spirit and the need for social interaction as flickering fires in this gray place and implies that somehow they ought to be stoked. Kidder, though, does not prescribe.

He introduces us to patients in various states of competence and helplessness. There is Eleanor, who checks in on her own and proceeds to organize a better group. There is Earl, in his 60s, who can't accept the reality of his senile heart disease and the way his social circle has evaporated. There are the klatchers and coffee klatchers, and, among the fringes, the dying and deranged.

Kidder focuses on an unlikely pair forged between accidental roommates: nonagenarian Lou Freed, a widower who accompanied his ailing wife into Linda Manor, and Joe Torchio, 20 years younger, whose many health problems forced him into the home. Both had active work lives. Joe, a probation officer, was influential in his community. Lou was a problem solver and inventor.

It's a pleasure to watch this friendship grow and to ponder the differences between the two men. Lou, nearly blind, survives on memories, family ties, obesity, and a need to be useful. Even in his present, limited state, he finds projects and moral challenges—seeing Joe's well-being among them. Joe, it seems, to accept a life shrunk to less than more than meals, talk, and TV, rejects medical treatments but finds himself welcoming Lou's intrusions and concerns.

In its own way, this relationship, in this place, is a triumph. Perhaps that's all that Kidder wants to say. But reading about these men, we wish they had more of life—that their prospects were limited to a room, a cafeteria, and a staff-run activities in Linda Manor's common area. And reading *Old Friends* in tandem with *The Fountain of Age*, we hope that Friedan's assertion—that a vibrant old age is attainable—is more than wishful thinking for most of us.

BY ELIZABETH EHRLICH

Ehrllich, a former BUSINESS WEEK associate editor, writes on social issues.

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MEMO TO CLINTON: JAPAN INC. DIDN'T MAKE JAPAN STRONG

BY GARY S. BECKER



Its economic success is the product of a skilled work force combined with innovative companies operating in a predominantly private-enterprise system

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

During the 1980s, many books and articles in the West sang the praises of Japan Inc., lauding what they believed to be a new form of capitalism wherein government and companies join to produce a powerful economic machine. The Japanese began to believe their press clippings and became convinced that in a short time they would overtake the U.S. as the most powerful economy in the world.

Industrial-policy boosters gave much credit to the guidance that the Ministry of International Trade & Industry (MITI) and the Finance Ministry provided for industrial and financial development. MITI supposedly picked out promising technologies and promoted them to the private sector. Yet it was never clear how Japanese bureaucrats managed to be so much more successful than their Western counterparts in technological breakthroughs.

The Western experience shows that government officials who spend taxpayers' money tend to make worse investments than private investors who spend both their own money and funds raised from banks and stockholders. For example, the governments of both Britain and France wasted a lot of money trying to develop a commercially profitable supersonic airplane. And the U.S. government has had to shut down Synthetic Fuels Corp., the company it created to develop substitute fuels for oil and coal.

LOST HORIZONS. The Japanese are apparently no longer convinced that their bureaucrats, however well-trained and professional, are successfully guiding the economy. The program MITI began in the mid-1970s to create startups is conceded to be a failure. It is also recognized that the same ministry probably slowed Japanese adaptation to the telecommunications and biotech revolutions. Even the head of MITI recently said that the state must abandon its attempts to plan the economy.

Thanks to evidence of widespread corruption and the most serious recession in a long time, Japanese voters recently kicked out of office the political party that held power for 30 years. A major goal of the new government is to deregulate retailing and several other sectors where it believes government intervention has worsened performance.

Unfortunately, the Clinton Administration believes that industrial policy in the form of promotion of new technologies by the federal government is a promising way to improve the growth rate of the U.S. economy. A joint effort with the auto industry to develop cars that get more than 80 miles per gallon of gasoline was recently announced with much fanfare. In light of the extensive history of

U.S. failure at industrial policy, I don't know how the U.S. can expect to succeed where Europe and even Japan have failed.

The Japan Inc. model also includes control of financial markets by the Finance Ministry. But Tokyo concluded in the latter part of the 1980s that many regulations were hindering rather than helping Japanese financial intermediaries compete against New York and London. The government then deregulated and opened these markets to foreign banks and investment houses.

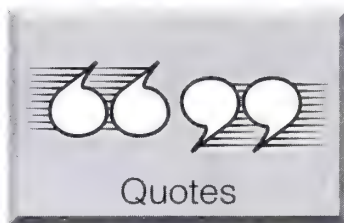
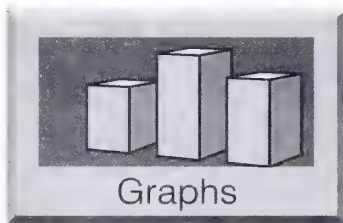
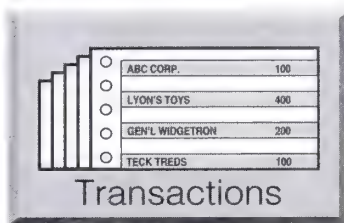
BURST BUBBLE. Still, the control over financial markets exercised by the Finance Ministry has been greatly exaggerated. U.S. money managers who lost a bundle by being short during the extraordinary rise of stock prices on the Tokyo exchange in the 1980s were convinced that the government—especially the Finance Ministry—rigged this market, as was the market for land. But it defies common sense to think that such decentralized markets could be rigged by the Japanese or any other government. I expressed that skepticism in these pages in May, 1990. The collapse of land and stock values and the failure of several government efforts to revive them have poured cold water on the claims of rigging. Stock and land prices had been bid up to a kind of South Sea bubble beyond any reasonable estimates of their worth. The present recession began after the bubble burst a few years ago.

On a recent visit to Tokyo, I was struck by how sharply the mood has veered from optimism to pessimism and concern, with calls for political and economic reform. Japan does need to deregulate several markets and make other changes, but carefully. After all, despite a slowdown in its growth rate in recent years, Japan's economy has been a stellar performer for several decades. The current recession has been made especially painful for Japan's export sector by a sharp rise in the value of the yen relative to other currencies, but that disparity may not last.

The recent pessimism is excessive, because Japan Inc. was always far more myth than reality. Japan earned its economic success the old-fashioned way, by combining a skilled, hard-working labor force with innovative companies that compete in a predominantly private-enterprise system—not by pioneering a new type of capitalism. That formula will again propel Japan forward in the future.

Although Japan was never as strong economically and politically as some experts would have us believe, it does not need radical surgery to remain one of the economic powerhouses.

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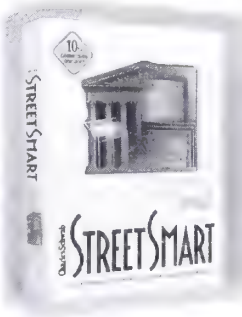
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Economic Trends

BY KAREN PENNAR

A 'GROWTH SURPRISE' MAY BE COMING—FOR SOME ODD REASONS

The employment statistics remain disappointing, and the price indexes continue to weaken. Nonetheless, a quiet groundswell of opinion has developed in recent weeks that the economy is reviving. Indeed, some economists argue that the expansion is in middle age and thus not far short of the late stage when both inflation and interest rates start to move higher.

The experts are seizing on a range of supporting evidence. Economists at Morgan Guaranty Trust Co., for instance, argue that capacity utilization in manufacturing, currently at 80.8%, is at a level "typically associated with expansions that have been under way for a

tial real estate markets to boost output.

Some economists also cite unusual factors that may bolster growth. Twenty-five years ago, says Richard F. Hokenson, economist at Donaldson, Lufkin & Jenrette Securities Corp., there was a jump in the number of children born as more men avoided the Vietnam war draft by becoming fathers. Today, these 25-year olds are poised to become significant consumers. It's at that age, says Hokenson, that Americans begin to make consumption decisions based on future—not present—income.

WHAT SPURS THE ECONOMY—INVESTMENT OR JUST PLAIN LUCK?

Children's stories tell comforting tales of thrift and virtue: The squirrel who saves his nuts eats well during the winter. Economists often explain economic success and failure in the same way: Countries that invest heavily in machinery and factories reap the benefits, while countries that consume their income are doomed to fall further and further behind. Indeed, it's common among economists and policymakers to blame America's economic woes today on an excess of consumption and a shortfall in investment in the 1980s.

But two papers from the National Bureau of Economic Research show that this explanation for economic growth may be, at best, a fairy tale. In the first study, economists Magnus Blomstrom, Robert E. Lipsey, and Mario Zejan look at the link between investment and growth in more than 100 countries. Their surprising conclusion: "We find no evidence that fixed investment is the key to economic growth." In fact, the economists find evidence that the relationship runs the other way—fast growth comes before high levels of investment. That makes sense, since it's easier to finance machinery, factories, and the like when the economy is growing rapidly.

So if fixed investment is not the spark for growth, maybe it's some other factor, such as education or trade policy? Not so fast. The second NBER paper makes the case that stellar economic performance may simply be due to luck. For most countries, growth rates are highly unstable over time, according to economists William Easterly, Michael Kremer, Lant Pritchett, and Lawrence Summers. That's in spite of the fact that most national characteristics, such as level of education, don't change very much.

"With a few famous exceptions... countries are 'success stories' one period and disappointments the next," write

the four economists. The biggest influence on growth appears to be sudden shocks to the economy as war or sudden changes in commodity prices. Policymakers should take note: There is, it seems, no magic elixir for growth.

With Michael J. Mandel in New York

DON'T EXPECT THE FLABBY DOLLAR TO SHAPE UP SOON

There's a view, based on comparisons of inflation rates around the world, that the dollar is too cheap, especially against the German mark, and that it could strengthen to the level of 1.85 even 2 marks to the dollar from its current 1.64 level.

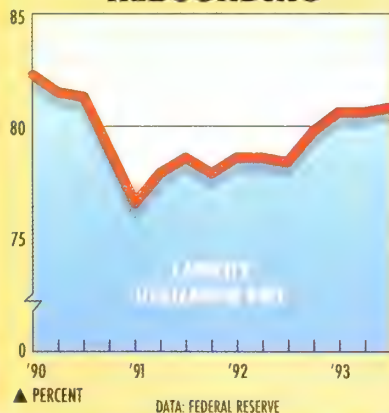
But that's unlikely, argues Gail Fosler, chief economist at the Conference Board in New York. For one thing, she says, the U.S. is expected to have lower real, or after-inflation, interest rates than are Japan and Germany coming months. That's in contrast with the high real interest rates that prevailed in the U.S. in the early 1980s that pushed the dollar higher. What's more, while growth in the U.S. should top Europe's and Japan's over the next year, U.S. output will continue to be "less than robust," says Fosler, and hence not strong enough to buoy the dollar on foreign exchange markets.

UNCLE SAM HAS RIVALS IN THE RUSH TO TAX CORPORATIONS

State and local taxes are a growing burden on corporations, and many executives believe that they will continue to increase in coming years, according to a recent survey of financial executives conducted by Coopers & Lybrand. Respondents indicated that on average state and local taxes account for 45% of their overall tax burden, with federal taxes representing 48% and international taxes the remainder.

More than half of those polled, 61%, reported that their company had experienced an increase in the state and local share of its total taxes over the past two or three years, while only 6% reported a decrease. The bulk of the taxes come in the form of income taxes with property taxes second. About 45% of the executives expect an increase in the share accounted for by state and local taxes over the next two to three years, while about 20% expect the share to decrease in the next few years.

MANUFACTURING IS REBOUNDED



while." It's true that the utilization rate has rebounded from the end of the recession in March, 1991, when it was at 76.6%, and isn't far away from prerecession levels of 81% to 82%. But it remains well below the levels of the late 1980s. Still, Morgan economists believe that economic growth of 3% or better could soon push capacity use to inflation-kindling levels.

Similarly, David D. Hale, economist at Kemper Financial Services Inc. in Chicago, suggests that the U.S. economy may be headed for "a positive growth surprise." Inventories may soon be replenished, he argues, because domestic final sales grew at a 4.4% annual rate during the second quarter and probably exceeded 4% in the third quarter, yet inventory gains have been subdued. Hale also expects rebuilding in the flood-damaged Midwest and stronger residen-

THE SECOND HALF IS LOOKING BRIGHTER ALL THE TIME

The U.S. economy lately has looked a lot like a Jackson Pollock canvas: It's hard to tell which way to hang it. Manufacturing output is rising, as factory payrolls shrink. Squishy labor markets in general belie the rapid growth in consumer spending. And despite healthy domestic demand, inflation is not in the picture.

To be sure, this 2½-year recovery has been less than satisfying—especially with growth at an annual rate of 1.9% in the first half of 1993. However, fresh readings on everything from retail sales to housing starts to industrial production suggest that, despite all the confusing brush strokes, the economy is putting in a considerably better performance in the second half of the year, which seems likely to carry forward into 1994.

Leading the pickup: consumer spending, business outlays for equipment, homebuilding, and auto output. The new momentum stems largely from the potent combination of low inflation and interest rates—especially the recent drop in long-term rates. Benign inflation is keeping interest rates down, and low rates are bolstering household finances, reinvigorating housing, and generally giving demand a lift.

In fact, demand growth this spring and summer has left business inventories very lean. Stock levels of manufacturers, wholesalers, and retailers rose 0.2% in August, while sales jumped 1.1%, dropping the ratio of inventories to sales close to a 12-year low. Some rebuilding of stockpiles will be necessary, and that will fuel further production gains in manufacturing this fall.

ROBUST SALES HAVE RETAILERS SMILING Consumers have been responsible for much of that inventory depletion. Despite meager economic growth at a 1.9% annual rate in the second quarter, consumer spending rose 3.4%, and third-quarter outlays appear to have increased at an even faster rate of 4% or better. Core cash registers tell the story (chart). Retail sales rose 0.1% in September, but car sales dipped by 1.8%, in part because of skimpy inventories of popular models. Including cars, retail buying scored a solid 0.6% advance. And since prices of consumer goods fell, as reported in the September consumer price index, the gain in real retail sales was even larger.

In fact, because sales in July and August were revised

up, real retail sales last quarter grew at an annual rate of about 6.5%, similar to the 6.3% pace in the second quarter. That's the second strongest two-quarter performance in seven years. The first was in the second half of 1992, when the overall economy grew by 4.6%.

Since March, retailers in several key sectors have posted some impressive gains. Sales at apparel shops are up at an annual rate of 12%. Receipts at general merchandise stores have risen at a 14% clip. And furniture and appliance stores show sales up at an 18% rate—undoubtedly reflecting the pickup in housing demand.

Low interest rates are clearly fueling homebuilding. The latest survey by the National Association of Home Builders reports that 62% of the builders queried in October see home sales on the rise, the best reading since 1986. Indeed, housing starts rose 2.8% in September, to 1.35 million, the highest in 3½ years (chart).

A 52% jump in starts of multifamily units propelled the month's gain, probably reflecting changes in the tax laws in the Clinton Administration's budget passed in August. Starts in the key single-family sector fell 3%, to 1.14 million, but they had soared 10.5% in August, and permits to begin new single-family homes rose.

One reason for this groundswell of support: Consumers appear to be feeling better about their economic lots. The preliminary reading of the University of Michigan's index of consumer sentiment for October jumped 6.7% from September, the largest gain since last year's postelection bounce.

What this suggests is that consumer finances are improving, despite the flabby look of the labor markets. That's partly because lower interest rates are generating extra cash for households by allowing them to refinance mortgages and pay down other existing debts even while their paychecks remain materially unchanged.

INDUSTRY IS SET FOR MORE GAINS

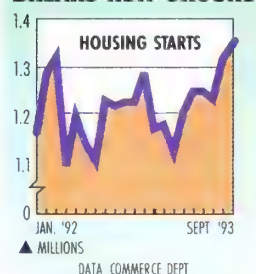
If the dichotomy of healthy consumer spending and slack job growth seems like an unintelligible splotch on the outlook, then the conflicting signs of the industrial sector also obscure the picture. But even here, a closer look shows an economy that is picking up steam.

Industrial production continues to advance, rising 0.1% in September. That was the fourth straight increase, and

RETAILING: RIDING THE UP ESCALATOR



HOMEBUILDING BREAKS NEW GROUND



Business Outlook

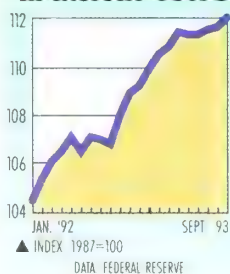
it was tempered by a return to normal utility use after extreme summer weather. Factory output alone was up a solid 0.4% last month (chart), led by another strong gain of 0.8% in production of business equipment.

Looking ahead, factory activity will get a lift from the auto sector, which has bold production plans for the fourth quarter. And with retail inventories low, especially at department stores, merchants will need to restock their shelves soon. Still, factory output, which rose at a 1.4% annual rate last quarter, clearly lagged behind the rapid pace in retail volume. And even though many of those goods came out of inventories, what caused the rest of the gap?

IMPORTS HAVE HURT DOMESTIC OUTPUT

The answer is imports, which are satisfying more and more U.S. demand. Imports rose just 0.8% in August, but their yearly growth rate has picked up, back into the double-digit range even after adjusting for prices. Exports, meanwhile, are struggling with the slack growth of other industrialized economies. Foreign-bound shipments rose 3% in August, after two straight declines.

THE STEADY CLIMB IN FACTORY OUTPUT



strong growth anytime soon, the trade deficit will worsen again this quarter. It may grow particularly large if imports remain strong.

The increase in foreign goods, however, helps to explain

another conflict in this economy. How can inflation be falling amid strong demand? Producer prices of finished goods rose just 0.2% in September, after no gains in the preceding four months. And the consumer price index was flat last month—a surprisingly low performance. Even after taking out food and energy prices, the core rate increased just 0.1%.

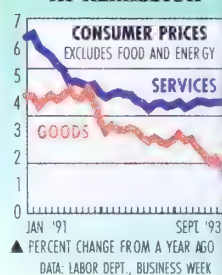
In fact, consumer prices, excluding food and energy, are up at an annual rate of just 3% so far this year, compared with a 3.4% pace for all of 1992. And the slowdown is widespread (chart). The yearly inflation rate for goods, excluding food and energy, is down to 1.6%—the lowest reading in 6½ years. And prices for services have been rising below 4% for more than a year now. Core service inflation hasn't been that modest since 1983.

Certainly, foreign competition is exerting downward pressure on U.S. inflation. But domestic companies are also able to limit markups because of the slowdown in their labor costs, especially in manufacturing. Improved productivity has lowered unit labor costs, meaning manufacturers can make money even when pricing power is weak.

In the third quarter, total factory work time fell, although output rose. That productivity gain combined with modest wage growth suggests that factory unit labor costs, which have already fallen for three straight quarters, dropped again last period. And that's why corporate earnings and profit margins are looking good, even as companies fight to lift sales.

The rise in profits will keep the capital-spending boom going, while the improvement in household budgets will keep consumers shopping. And that extra demand coming from both businesses and consumers paints a very clear picture of a stronger economy.

INFLATION REMAINS IN REMISSION



THE WEEK AHEAD

EMPLOYMENT COSTS

Tuesday, Oct. 26, 8:30 a.m.

Compensation costs for civilian workers probably rose by 0.8% in the third quarter, forecast economists surveyed by MMS International, a unit of McGraw-Hill Inc. That's slightly below the 0.9% pace in the second quarter and reflects the continued slowdown in wage growth as well as some moderation in the cost of worker benefits.

CONSUMER CONFIDENCE

Tuesday, Oct. 26, 10 a.m.

The Conference Board's index of consumer confidence likely rose to 64.3 in October, up from 62.6 in September. The October gain, which would be the

fourth consecutive increase in confidence, is suggested by the jump in the University of Michigan's consumer-sentiment index for early October.

DURABLE GOODS ORDERS

Wednesday, Oct. 27, 8:30 a.m.

New orders for durable goods were probably flat in September, after rising 2.3% in August. Auto demand might lift orders into the plus column. Unfilled orders, down 0.6% in August, probably continued to fall in September.

GROSS DOMESTIC PRODUCT

Thursday, Oct. 28, 8:30 a.m.

The MMS median forecast is that the economy grew at an annual rate of 2.5% in the third quarter, held down by flood-

related losses in farm inventories and income. Consumer spending, business investment, and residential construction were likely up at much stronger rates. The expected pace would be the economy's fastest growth rate since the fourth quarter. Real GDP grew by 1.9% in the second period.

PERSONAL INCOME

Friday, Oct. 29, 10 a.m.

Personal income likely rose just 0.2% in September, hurt by weakness in wages and salaries. Consumer spending, though, probably advanced by a fast 0.4%. In August, income jumped 1.3% while outlays rose 0.4%. August spending may be revised higher, given the upward changes to retail sales.



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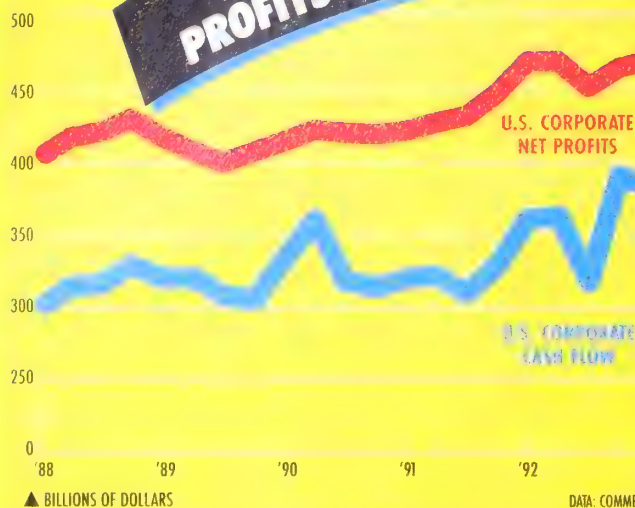
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**EASY CASH:
PROFITS ARE UP...**

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NOVEMBER 1, 1993

MONEY TALKS

AND CASH-RICH COMPANIES HAVE BEGUN TO INVEST

Lots of families, it seems, have an Uncle Charlie, the old miser who hid \$50,000 under his mattress but lived like a pauper. Only when he died did the family find his stash.

For the past two years, U.S. corporations have been acting a lot like Charlie. Companies have been rolling up record profits—thanks to recession-inspired efforts to control costs. They have sharply cut interest expenses, slashed payrolls, and improved productivity. As a result, net corporate cash flow in 1992 exceeded half a trillion dollars for the first time. Yet business executives, uncertain whether the economy was really turning around, and still struggling with debt-heavy balance sheets, were afraid to spend.

At last, Corporate America has begun to snap out of its funk. Some companies are using cash to pay down debt. And a big chunk of the cash hoard is fueling business' renewed urge to merge. According to *Mergerstat Review*, which tracks takeovers, the dollar value of all domestic and foreign acquisitions in the first nine months of 1993 soared to \$111

billion, up 66% over last year, and headed for the highest levels since the late 1980s. The most glittering example of how cash is feeding the M&A boom: The battle for Paramount Communications Inc., in which QVC Network Inc. has offered \$4 billion in cash as part of its \$9.8 billion bid. Says an official close to the bidding: "We all know that stock is funny money, and cash is the real thing."

BILLIONAIRE CLUB. But as business opens its wallet, the bulk of cash is being put into capital investment. Manufacturing equipment purchases rose to \$433 billion in the second quarter, a 20% jump from the beginning of 1992 (chart). While the U.S. economy usually is led out of the doldrums by consumer spending, this turnaround is different. America now is in the midst of a cash-led investment surge that could point the way toward a solid, low-inflation, long-term expansion. Economists are euphoric. Says Conference Board chief economist Gail D. Fosler: "This pickup in investment is what we've always dreamed of."

The pot of cash available for investment is staggering. In the 1980s, Corpo-

rate America's financing needs exceeded internal funds—retained earnings plus depreciation—by an average of near \$42 billion a year. But in 1991 and 1992, companies made so much—and bought so little—that they actually had billions left over. The Federal Reserve Board estimates that during this period, U.S. companies spent \$40 billion less on plant and equipment than they generated in internal funds. Last June, the nation's 500 largest corporations held an average of more than \$1 billion in cash, a 50% increase from the year before, according to MarketBase Inc., a data service.

Take General Electric Co., which has more than \$3 billion on hand at the end of 1992, an increase of more than \$1 billion from 1991. Much of that growth came from cost-cutting: In the past 18 months alone, GE saved \$900 million by slashing inventories. And where is all that money going? Well, GE has been quietly buying up smaller outfits in the U.S. and abroad, and Wall Street is rife with speculation that the company is gathering cash for a major acquisition.

Motorola Inc., which started the year

...DRIVING CAPITAL INVESTMENT

REAL INVESTMENT IN PRODUCERS' DURABLE EQUIPMENT, 1987 DOLLARS

'89 '90 '91 '92 '93
DATA: COMMERCE DEPT.



Chrysler, with near \$5 billion in reserve, is outfitting new assembly lines

h \$277 million in operating cash flow, been investing heavily to keep up h soaring demand. Among other gs, the company is increasing capaci- in existing U.S. plants and is con- structing a new \$120 million facility in na. Overall, Motorola will boost capi- outlays this year to \$2 billion, up 45% n 1992.

uch of the new action will be over- s. American multinationals bought foreign companies in 1992 and ed up an additional 278 during the t three quarters of 1993. Mobil Corp. others, for example, will invest as h as \$20 billion in liquefied natural projects in Qatar in the Middle East. on Carbide Corp. is about to build a e petrochemical complex in Kuwait. t year, U.S. companies pumped \$487 on into foreign investments, up from 7 billion in 1990.

SHY. Many companies, however, are wary about spending down their egg. By the end of the third quar- Chrysler Corp. was sitting on nearly billion, an increase of \$800 million n 1992. The carmaker is spending at \$4.3 billion a year on new product elopment as well as new equipment lants such as the Belvidere (Ill.) fac- that will build its Neon subcompact. it's trying to hold down capital iding, preferring instead to beef up nderfunded pension plan and build rves to get through the next down 3.

another gun-shy company is Morris Inc., an upstart, low-cost airline ed in Salt Lake City. "In this indus- there's a real history of people not ng enough money," says Chairman ard Frendt. "And we want to stay

strong." So Morris has no plans to use the \$40 million in cash it has built up.

But other companies don't mind digging deep into their pockets. One reason they're so flush is that they have sold a record amount of equities. So far in 1993, nearly \$96 billion in new stock has come to market, \$27 billion in initial public offerings alone. Meanwhile, individuals fleeing low-margin certificates of deposit have poured more than \$82 billion into stock funds through the first eight months of 1993, up 40% over last year, creating even more demand for equities.

The new liquidity has its risks, of course. It can generate inflation if consumers overspend. Another worry: In their mad scramble for double-digit returns, investors are buying into frothy IPOs and exotic foreign companies whose names they can't pronounce. And the capital investments by business are no guarantee of success. After all, in the mid-1980s, real estate investment quickly turned into real estate speculation. Many overpriced mergers in those years, too, led to widespread job losses, as overleveraged acquirers scrambled to cut costs and keep deals afloat.

But the current round of investment seems much more fruitful. Already, capital spending has accounted for one-third of real growth in the current expansion. In the longer term, investment in new technology can help make U.S. compa-

nies more productive and better able to compete in the world economy. Even smart investments overseas can pay off domestically. They create wealth at home and generate demand for U.S. products in developing countries.

These days, corporations are doing deals that make sense from a strategic point of view—buying assets that can help their core businesses. Bell Atlantic's proposed merger with Tele-Communications and Liberty Media is positioning the companies for the future, and others in the industry are expected to follow suit. The health-care industry also is consolidating at a rapid pace in anticipation of the Clinton Administration's plan to overhaul health care.

A couple of years ago, Wall Streeters liked to say that cash was trash. For investors looking at 2% returns on money funds, that may be true. But for business, cash means something very different. For them, the dross holds the promise of being turned into the gold of long-term investment. Today, once again, cash is king.

By Howard Gleckman and Owen Ullmann in Washington and Tim Smart in New Haven, with Lois Therrien in Chicago and bureau reports

American multinationals picked up 400 foreign companies in 1992, and 278 more in the first three quarters of 1993

Top of the News

CORPORATE PROFITS

A GRAB-BAG QUARTER, BUT WITH PLENTY OF GOODIES

Service and technology helped to produce a healthy 16% gain overall

Corporate America's profits continued to rise in the third quarter—an average of 16%—but the improvement in performance was hardly universal. In BUSINESS WEEK's flash report of third-quarter results, the service and technology sectors posted strong gains, with profit hikes of 236% and 54%, respectively. Among the stars was Citicorp, which kept earnings on the upswing with a spectacular 355% gain. In technology, computer maker Compaq was a stand-out, with a 116% earnings rise. Industrials, however, lagged. Price-cutting tore into the bottom lines of Philip Morris and Alcoa, for instance. Among the few bright spots in the category: Chrysler. The auto maker's hot new models propelled it to a 109% gain.



CONSUMER MARKETING

'VALUE PRICING' PAYS OFF

Procter & Gamble's marketing gamble has sales growing again

The U.S. consumer market has not been kind to Procter & Gamble Co. lately. In the past three years, cash-strapped buyers have cut back on purchases or traded down to lower-priced products, shunning P&G's premium brands. In diapers, a huge business for P&G, the company's market share is under 40%—up a bit in recent months but far below its nearly 50% share in the late 1980s.

Now, though, P&G is showing signs

that its strategy of slicing prices and promotions while spewing out new products is giving it a new lease on its markets. When Chairman Edwin L. Artzt announces company results on Oct. 26, he will be able to trumpet a 6% improvement in U.S. unit volume for the second quarter in a row. The successive increases, which leave aside some divestitures, are P&G's strongest such gains since 1990. The big question: Can Artzt turn the volume gains into strong profit increases soon?

For now, P&G has to be content with market-share growth: It's on the uptick in two-thirds of its 44 U.S. categories, from deodorant to dishwashing detergent. That's a sign that "value pricing" is working. The plan, launched in 1991,



called for P&G to lower list prices and slash discounts across most of its U.S. product line.

The goal: to even out the swings in demand that such promotions cause. But the tactic antagonized many customers and temporarily depressed sales. Now, however, the idea is catching on: Marketing Corp. of America, a Westport (Conn.) consulting firm, found in a recent survey that 75% of manufacturers have or are testing some form of value pricing.

P&G's new-product blitz is paying off, too. Although Oil of Olay bath bar at Whitewater Fresh Zest may not seem like huge innovations, they've allowed the company to regain the lead in bar soaps from Lever Brothers Co. P&G has

Current qtr. sales
(Millions)

INDUSTRIALS 102,728.0

ABBOTT LABORATORIES	2,060.4
ALCOA	2,230.2
AVON PRODUCTS	957.1
BRISTOL-MYERS SQUIBB	2,862.0
CHAMPION INTERNATIONAL	1,245.3
CHRYSLER	9,713.0
COOPER TIRE & RUBBER	326.1
CORNING	1,198.0
DANA	1,290.7
GENERAL DYNAMICS	900.0
GENERAL ELECTRIC	14,858.0
GEORGIA-PACIFIC	2,982.0
GOODRICH (B.F.)	500.8
HASBRO	812.4
INTERNATIONAL PAPER	3,400.0
JOHNSON & JOHNSON	3,506.0
KELLOGG	1,669.2
LIZ CLAIRBORNE	621.9
LOCKHEED	3,475.0
LORAL	836.6
MATTEL	671.1
MERCK	2,544.1
MONSANTO	1,849.0
PEPSICO	6,316.4
PFIZER	1,872.5
PHILIP MORRIS	15,209.0
PPG INDUSTRIES	1,405.4
RUBBERMAID	515.2
TENNECO	3,150.0
TEXACO	8,479.0
U.S. SURGICAL	237.7
UPJOHN	900.0
WEYERHAEUSER	2,224.9
WHIRLPOOL	1,909.0

SERVICES 36,912.1

AMR	4,199.0
CAPITAL CITIES/ABC	1,301.4
CAREMARK INTERNATIONAL	455.6
CBS	752.6
CHASE MANHATTAN	NA
CHEMICAL WASTE MGMT.	541.6
CITICORP	NA
COSTCO WHOLESALE	2,364.8

% chg.	Est. EPS (8/19)	Reported EPS	Diff.		Current qtr. sales (Millions)	% chg.	Qtr. profits (Millions)	% chg.	Est. EPS (8/19)	Reported EPS	Diff.
-6	0.77	0.71	-0.06	FEDERAL EXPRESS††	2,015.7	+8	32.9	+224	0.43	0.60	+0.17
+13	0.38	0.38	--	FIRST CHICAGO	NA	NA	284.1	NM	1.15	3.14	+1.99
-36	0.47	0.32	-0.15	GANNETT	876.5	+3	88.8	+12	0.61	0.61	--
0	0.85	0.75	-0.10	GRAINGER (W.W.)	698.8	+11	38.7	+4	0.75	0.75	--
+6	1.18	1.18	--	HCA	1,253.0	-1	73.1	NM	0.41	0.41	--
NM	-0.30	-0.40	-0.10	HOST MARRIOTT	2,028.0	+4	27.0	+4	0.27	0.21	-0.06
+109	0.55	0.84	+0.29	McKESSON	3,028.3	+6	29.7	+16	0.63	0.69	+0.06
-17	0.39	0.30	-0.09	MERRILL LYNCH	4,147.0	+22	359.7	+57	2.37	3.14	+0.77
NM	0.63	0.49	-0.14	MORGAN (J.P.)	NA	NA	468.0	+46	1.56	2.30	+0.74
+169	0.63	0.72	+0.09	MORRISON KNUDSEN	733.8	+26	9.3	NM	0.29	0.30	+0.01
+66	1.49	1.52	+0.03	OFFICE DEPOT	659.9	+52	17.2	+76	0.15	0.18	+0.03
+21	1.41	1.41	--	PAINWEBBER GROUP	1,043.3	+25	59.1	+14	0.82	1.12	+0.30
NM	0.08	0.08	--	PRIMERICA	2,015.7	+62	258.7	+57	0.99	0.96	-0.03
+537	0.66	0.59	-0.07	ROADWAY SERVICES	983.9	+18	29.0	-12	0.83	0.74	-0.09
+12	0.85	0.84	-0.01	SAFEWAY	3,558.9	+3	42.1	+111	0.29	0.34	+0.05
-52	0.65	0.39	-0.26	SOUTHWEST AIRLINES	554.4	+24	43.9	+63	0.33	0.31	-0.02
+10	0.70	0.70	--	TIME WARNER	3,700.0	+6	-111.0	NM	-0.15	-0.30	-0.15
+5	0.87	0.90	+0.03	WELLS FARGO	NA	NA	165.0	+588	2.45	2.74	0.29
-41	0.53	0.47	-0.06	TECHNOLOGY	24,635.1	+12	1,488.5	+54	0.60	0.58	-0.02
+36	1.59	1.85	+0.26	ADVANCED MICRO DEVICES	418.4	+17	61.3	+25	0.68	0.61	-0.07
-30	0.56	0.56	--	APPLE COMPUTER†††	2,140.8	+21	2.7	-97	-0.04	0.02	+0.06
+20	0.78	0.86	+0.08	COMPAQ COMPUTER	1,746.2	+64	106.8	+116	1.00	1.26	+0.26
+11	0.61	0.62	+0.01	DIGITAL EQUIPMENT†	3,014.9	-9	-103.2	NM	-0.11	-0.76	-0.65
+107	0.60	0.78	+0.18	GENENTECH	165.4	+31	15.5	+102	0.10	0.13	+0.03
+9	0.61	0.56	-0.05	HONEYWELL	1,452.3	-6	80.9	-53	0.61	0.60	-0.01
NM	1.02	0.98	-0.04	INTEL	2,239.8	+57	584.4	+143	1.33	1.33	--
-25	1.18	1.11	-0.07	LOTUS DEVELOPMENT	240.1	+16	18.3	-39	0.34	0.41	+0.07
-62	0.93	0.81	-0.12	MOTOROLA	4,408.0	+30	254.0	+100	0.77	0.88	+0.11
+15	0.37	0.37	--	MICROSOFT†	983.0	+20	239.0	+14	0.77	0.79	+0.02
+152	0.48	0.64	+0.16	POLAROID	533.9	+4	24.9	-10	0.49	0.53	+0.04
-2	0.88	1.13	+0.25	STORAGE TECHNOLOGY	304.0	-21	-108.7	NM	-0.18	-0.76	-0.58
NM	0.00	-0.26	-0.26	SUN MICROSYSTEMS†	960.5	+12	16.6	+244	0.26	0.16	-0.10
NM	0.78	0.86	+0.08	TEXAS INSTRUMENTS	2,161.0	+14	147.0	+153	1.08	1.54	+0.46
-38	0.50	0.32	-0.18	UNISYS	1,806.7	-13	84.1	+44	0.21	0.33	+0.12
+27	0.93	0.96	+0.03	WESTINGHOUSE ELECTRIC	2,060.0	-9	65.0	-29	0.24	0.15	-0.09
236	0.68	0.83	+0.15	UTILITIES & TELECOM	21,914.3	+5	1,783.5	-16	0.77	0.65	-0.13
NM	1.37	1.33	-0.04	AMERITECH	2,946.8	+5	363.0	+10	1.33	1.33	--
+26	4.48	4.75	+0.27	BELL ATLANTIC	3,289.6	+3	386.7	-2	0.87	0.89	+0.02
+11	0.28	0.29	+0.01	DOMINION RESOURCES	1,287.1	+19	199.0	+33	0.96	1.20	+0.24
+177	3.22	4.19	+0.97	GTE	4,943.0	0	558.0	+20	0.57	0.59	+0.02
+52	0.86	1.25	+0.39	PACIFIC TELESIS	2,602.0	+4	323.0	+13	0.73	0.77	+0.04
NM	0.09	0.02	-0.07	PUBLIC SERVICE ENT. GRP.	1,402.0	+12	192.2	+39	0.78	0.79	+0.01
+355	0.66	1.06	+0.40	SPRINT	2,867.6	+9	136.7	+9	0.49	0.39	-0.10
-11	0.31	0.29	-0.02	US WEST	2,576.2	+5	-375.1	NM	0.72	0.70	-0.02

† available
 †† First-quarter results
 ††† Second-quarter results
 †††† Fourth-quarter results

ANDARD & POOR'S COMPUSTAT SERVICES, A DIVISION OF MCGRAW-HILL INC. EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S INC., NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INC.

o been slashing prices on key brands to reduce the premium it charges. In July, it hacked 15% from the list price of Liquid Tide, and in mid-October, it announced that Charmin's price would come down by 2%.

So far, Artzt has succeeded in paying for his price cuts in toilet paper, diapers, and other businesses by reducing costs. Indeed, at 6.8%, Procter's net margins

are at their highest in nearly a decade. But the company's analysts still bolster sagging revenues, which are being hurt by price-cutting and divestitures. Indeed, analysts expect Procter's revenues for the quarter ended Sept. 30. to be down from the \$7.9 billion it booked a year ago.

Wall Street is betting, however, that P&G is poised to make significant profit gains.

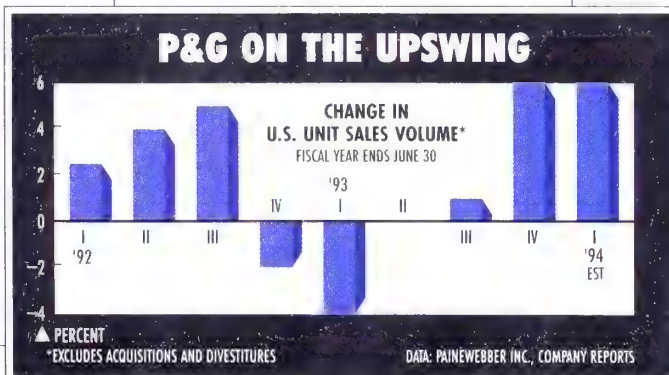
With the stronger dollar depressing overseas results and a retroactive tax bill hitting under the new Clinton tax plan, analysts expect Procter's net for the Sept. 30 quarter to rise about 8% from the same period last year, to \$657 million. And that doesn't reflect the 13,000 job cuts that Artzt announced last July as part of a plant consolidation and organizational streamlining that he says

will save \$500 million by 1995 or 1996. As the cost-cutting kicks in, analysts anticipate that earnings will rise 13% for the full fiscal year, which ends next June. With that in mind, investors have driven P&G's share up 4½ points, to nearly 53, since Oct. 1.

DIAPER FIGHT. Many factors, of course, could intervene in the rosy profit scenario. P&G still has to show that new products will help it regain ground in disposable diapers. Foreign sales gains, until lately a big source of growth for the company, are slowing. And price pressure remains intense.

In short, P&G's markets still are far from friendly. But if it can turn the gains it has already made into bigger ones, it may be on the upswing.

By Zachary Schiller in Cleveland



CAN A 1,245% MARKUP ON DRUGS REALLY BE LEGAL?

Pharmacists are taking manufacturers to court to find out

Three weeks before the White House unveiled its health-care reform plan, Hillary Rodham Clinton told a trade group of retail pharmacists what they wanted to hear. Come reform, she said, they, too, would enjoy the big price breaks that drugmakers offer health-maintenance organizations and other select buyers.

The pharmacists, however, aren't taking any chances. On Oct. 14, Rite Aid Corp., nine other chains, and 10 independents filed suit against seven big drugmakers. Their claim: The manufacturers' discounts amount to illegal price discrimination. Drugmakers "have operated with impunity—until now," charges Rite Aid Chief Executive Alex Grass.

BRACING FORCE. On the surface, it seems hard for the drug companies to justify the often huge disparities in their prices. Schering-Plough Corp., for instance, charges hospitals just \$2.03 for 100 tablets of its potassium supplement, K-DUR, while retail pharmacies pay \$27.31—a 1,245% markup (chart). Most of the drugmakers won't discuss their prices or the suit, which they're fighting. A Schering spokesman defends the com-

pany's pricing as legal and calls the suit "reckless and groundless."

which account for more than 30% of U.S. drug sales, helps keep prices down—and reformers won't want that to change.

The retail pharmacies also have a tough legal case to prove. The drugmakers can argue they have to offer such breaks to HMOs or lose business. They don't face the same risk with retail pharmacies. Indeed, the Federal Trade Commission has already found no fault with the drug manufacturers' differential pricing policies.

Still, a court victory is not the only thing the pharmacists want. One drug executive snipes that the pharmacies have already achieved what he sees as their key goal: publicity. The druggists' PR campaign may prove ill-timed. Drug companies can argue that they're already under too much pressure. On Oct. 19, Pfizer, Upjohn, and American Cyanamid announced plans to slash 7,000 jobs.

GOLDEN OPPORTUNITY. In the end, the pharmacists' real impact may be in helping to shape health-care reform with their litigation. And there's plenty of litigation ahead: Attorney Joseph L. Alioto, the former San Francisco mayor, recently filed several pricing-discrimination suits against drugmakers. Two other pricing suits are expected soon, says John Rector, general counsel of the National Association of Retail Druggists, the trade association that is coordinating the Rite Aid case.

By suing now, the retail pharmacies figure they are setting the tone for the big fight to come. The drug companies oppose any form of price control, so they were almost certain to mount a court fight against the Clinton Administration's plans to limit differential pricing—even if the druggists hadn't taken their action. Now, the retail pharmacies are forcing the courts and Capitol Hill to take sides sooner rather than later. It's clear that in health-care reform, little of the medicine will go down easy.

By Joseph Weber in Philadelphia, with Catherine Yang in Washington



pany's pricing as legal and calls the suit "reckless and groundless."

The pharmacies face an uphill battle with their litigation—both politically and practically. For starters, drugmakers grant price breaks because they have no other choice. HMOs and hospitals can choose the drugs they want to stock, and so pit manufacturers against one another to win bargains. Retail pharmacies have to stock nearly everything, or lose customers to a store around the corner. What's more, pressure from HMOs, hospitals, and mail-order buyers,



EDUCATION IS A PRIORITY, SAY TAXPAYERS

TICKED OFF OVER TAXES

A BUSINESS WEEK/Harris Poll finds Americans angry and pessimistic

There's nothing politicians like to promise as much as a tax cut, but they shouldn't expect voters to believe them. A new BUSINESS WEEK/Harris Poll found that an overwhelming 87% of respondents say they expect their taxes to increase during the next year. Maybe that's why a tax-cut pledge paid little political punch: 53% said such a vow would have no impact on their vote for a candidate.

On the flip side, though, 54% say they'd be less likely to vote for a candidate who intends to raise taxes. A small wonder: Fully 67% believe taxes have "reached the breaking point," the highest since Louis Harris & Associates began tracking the issue in 1964.

People don't think they're getting much for their money, either. Most Americans—69%—think their federal levies are too high considering what they get in exchange, while 67% feel the same way about state and local taxes. And, by a 2-to-1 margin, the public lacks confidence that money raised by past tax hikes was used efficiently.

But 73% say they'd be at least somewhat willing to accept higher taxes if they were certain that the money would be effectively spent. And they have some clear priorities for earmarked tax increases: Among those saying they'd be very willing to pay more for specific purposes, job creation ranked first, followed by education. Defense and welfare finished last.

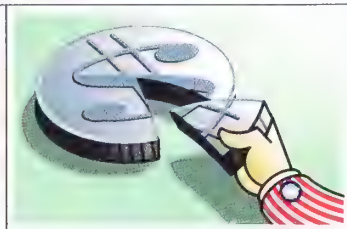
Voters seem to see higher levies on health as inevitable. Eight in 10 say Clinton's plan for health-care reform will require more taxes than currently proposed. And 66% say they are at least somewhat willing to pay more.

THE LOWDOWN ON HIGH TAXES

THE BREAKING POINT

As far as you and your family are concerned, do you feel you have reached the breaking point on the amount of taxes you pay or not?

Reached breaking point	67%
Not reached breaking point	28%
Not sure	5%



PRIM EXPECTATIONS

In the next few years, do you expect that your taxes will go up, down, or stay about the same?

Go up	87%	Stay about the same	9%
Go down	2%	Not sure	2%

FOCUSING ON WASHINGTON...

Considering what taxpayers get from the federal government, would you say your federal income taxes are much too high, somewhat high, about right, somewhat low, much too low, or not sure?

Much too high	28%
Somewhat high	41%
About right	24%
Somewhat low	4%
Much too low	2%
Not sure	1%

...AND CLOSER TO HOME

Considering what taxpayers get from state and local governments, would you say your state and local income taxes and property taxes are much too high, somewhat high, about right, somewhat low, or much too low?

Much too high	31%
Somewhat high	36%
About right	27%
Somewhat low	3%
Much too low	1%
Not sure	2%

UMBING ON THE HIKES

When your taxes have been increased in the past, how confident are you that the money was effectively spent on meeting public needs—very confident, somewhat confident, or not confident at all?

Very confident	2%	Not confident at all	66%
Somewhat confident	30%	Not sure	2%

REAGAN REDUX

During the Reagan Administration, federal tax rates were reduced, and some states also reduced their taxes. What effect, if any, do you think those tax reductions had on government services during the 1980s? Did government services become better, worse, or did the tax reductions have no impact on government services?

Better	12%	No impact	54%
Worse	29%	Not sure	5%

ONEY WELL SPENT?

If you were certain that an increase in taxes would be effectively spent on meeting public needs, how willing would you be to pay increased taxes—very willing, somewhat willing, or not willing at all?

Very willing	20%	Not willing at all	26%
Somewhat willing	53%	Not sure	1%

ROMISES, PROMISES

If a candidate for President of the U.S., governor of your state, or mayor of your town says that he or she will lower your taxes if elected, would that make you much more likely to vote for that candidate, somewhat more likely, somewhat less likely, much less

likely, or would it have no impact on how likely you were to vote for that candidate?

Much more likely	8%	Much less likely	6%
Somewhat more likely	20%	No impact	53%
Somewhat less likely	9%	Not sure	4%

THE MONDALE FACTOR

Now, if a candidate for President of the U.S., governor of your state, or mayor of your town says that he or she will raise your taxes if elected, would that make you much more likely to vote for that candidate, somewhat more likely, somewhat less likely, much less likely, or would it have no impact on how likely you were to vote for that candidate?

Much more likely	2%	Much less likely	30%
Somewhat more likely	6%	No impact	36%
Somewhat less likely	24%	Not sure	2%

PICKING PRIORITIES

How willing would you be to pay higher taxes if you knew that all of the added taxes were being spent on each of the following—very willing, somewhat willing, or not willing at all?

	Very willing	Somewhat willing	Not willing	Not sure
Creating jobs	55%	36%	9%	0%
Education	52%	38%	9%	1%
Fighting crime	50%	40%	9%	1%
Fighting drug abuse	48%	39%	12%	1%
Health-insurance reform	37%	43%	18%	2%
Social security	32%	49%	18%	1%
Reducing the federal government's budget deficit	31%	46%	23%	0%
The environment	29%	51%	19%	1%
Homelessness	28%	53%	18%	1%
National defense	15%	49%	35%	1%
Welfare	9%	38%	52%	1%

CLINTON'S HEALTHONOMICS...

As you may know, a great deal of attention has been given recently to health-care reform. Under the President's proposal, everyone will be provided with health insurance, with the extra cost covered by savings from reforming the health-care system, plus an increase in cigarette taxes and a small tax increase on large companies. Do you think that these will be enough to pay for health-care reform, or do you think that other taxes will be necessary?

Will be enough	15%
Other taxes will be necessary	80%
Not sure	5%

...AND WHAT IF HIS NUMBERS ARE OFF?

If other taxes—such as an increase in your federal income tax—are necessary to pay for the President's health-care-reform proposal, how willing would you be to pay them in exchange for health-care reform—very willing, somewhat willing, or not willing at all?

Very willing	18%	Not willing at all	33%
Somewhat willing	48%	Not sure	1%

Edited by Mark N. Vamos

Survey of 1,252 adults conducted Oct. 14-18 for BUSINESS WEEK by Louis Harris & Associates Inc. Results should be accurate to within three percentage points.



TCI LAYING COAXIAL CABLES IN DELAWARE—AN IMPORTANT COMPONENT OF THE COMING INFORMATION HIGHWAY.



BELL ATLANTIC WORKING ON FIBER-OPTIC TRUNK LINES IN PENNSYLVANIA.

OFF AND RUNNING ON THE DATA HIGHWAY

The megadeal has Uncle Sam struggling to catch up



Even before he became the Clinton Administration's techno-guru, Al Gore had a vision of a new U.S. superhighway system, made not of concrete and steel but of copper wire and optical fiber. Under Uncle Sam's guiding hand, industry would connect every nook and cranny of America

into a vast new network. The highways would carry a flood of information to and from homes, offices, and schools, changing the way we live.

Funny thing about government intentions: Even as Clinton's National Information Infrastructure task force begins to study the issues, industry is racing to build it. The Oct. 13 announcement of a planned \$12 billion-plus merger between Bell Atlantic Corp. and Tele-Communications Inc. leaves the Administration and Congress playing catch-up. Unless Uncle Sam gets his regulatory act together before other deals are cut, warns Representative Rick Boucher (D-Va.), "the government will not have an opportunity to affect the future of the communications industry."

Before Bell Atlantic and TCI can combine, the deal must be cleared by the Justice Dept., the Federal Communications Commission, and an army of local authorities (table). While the opposition of political heavyweights could slow approval, the merger is expected to negotiate the government maze eventually. Indeed, rather than sharing the fears of some in Congress that the combination will create a dangerous monopoly (page 37), federal antitrusters are already salivating at the prospect of increased competition. "This seems terrific," explains one federal official. "Eventually, you may have Bell operating companies competing against each other through cable or other phone companies, like cellu-

lar, in each other's regional markets.

The real question remains: What is the government's role in the long-term picture? The Clinton Administration insists that a new network, like the current phone system, must be accessible to everyone, even if hookups to individual users prove to be money-losers. At the same time, the Feds want the network to be built and run by industry, which is naturally more interested in profit than social policy. As a result, "the Administration seems to have conflicting goals right now," says Fred W. Weingarten, who is executive director of the Computing Research Assn., a group of academic researchers.

HUB AND SPOKE? What's more, data highway pundits warn that the mega-companies "are not really interested in putting in a true information infrastructure," says Michael Dertouzos, director of the computer science lab at Massachusetts Institute of Technology. While some companies, especially cable operators, typically envision are hub-and-spoke networks that deliver entertainment and information from a central point (page 38). In contrast, Dertouzos, along with the Administration—wants to create "a place where everyone has equal opportunity to buy and sell and exchange information, rather than to feed things" from a single source.

Bell Atlantic, anyway, insists that its plans mesh with the Administration's. "Intelligence activity is part of our vision," says a spokeswoman. Nonetheless, Bell Atlantic, TCI, and other companies that follow a similar path can expect government regulators to try to

KEEPING THE BUREAUCRATS BUSY

Regulatory hurdles to Bell Atlantic's acquisition of TCI:

ANTITRUST The Justice Dept. and the Federal Trade Commission must conclude that the deal does not stifle competition

COMMUNICATIONS The Federal Communications Commission must allow the transfer of TCI's microwave licenses to Bell Atlantic

STATE Public utility commissions, which oversee phone service, and other agencies regulating cable will review the merger

MUNICIPAL 1,600 city councils around the country must approve the transfer of TCI's local cable licenses

DATA: BUSINESS WEEK

...tune their vision. Later this year, infrastructure task force, which is by the Commerce Dept., will begin rings to thrash out long-term guides for industry. "It is a significant lunge to keep up with what's going but we've got a good process set in ion," says one task-force official. he Clintonites say it's too early to about potential legislation or regula- s aimed at shaping the superhigh- . But some actions aren't hard to

predict. For example, Boucher has introduced a bill allowing cable companies to compete directly with the regional Bells. But he would impose an important condition: "The government needs to maintain the requirement of universal access," Boucher says. In addition, says Dertouzos, Uncle Sam should begin helping industry set common standards to allow all the new networks to communicate.

Can the Administration play the delicate role of shaping a private superhigh-

way to its own vision? That's not clear. What is obvious, however, is that the government must act quickly. "You don't have to suspect Bell Atlantic and other mergers of illicit intent to say that they are restructuring the industry and preempting policy decisions," says Weingarten. For better or worse, it seems, the U.S. is building an information superhighway without a blueprint.

By John Carey, with Mark Lewyn and Catherine Yang, in Washington

Commentary/by Mark Lewyn

MEDIA MERGERS: WHY WASHINGTON SHOULD BUTT OUT

The reaction was swift and predictable. As soon as Bell Atlantic Corp. announced its plan to buy Tele-Communications Inc., Senator Howard M. Metzenbaum cried "anti-trust." In calling an Oct. 27 hearing by his antitrust subcommittee into the "ominous trend" of media mergers, he declared: "Consumers are facing a gamonster."

Metzenbaum should tone down his rhetoric. When it comes to the new information superhighway, politicians and consumer advocates, such as the Ohio Democrat, threaten to keep America traveling the backroads of its past.

These critics figure that bigness is inherently bad, at least insofar as it thwarts competition, and that it is government's role to protect consumers from the dark underbelly of technological upheaval. Certainly, they have some legitimate worries: There is danger when a single company provides everything from local phone service to entertainment-on-demand, from banking services to on-line education.

BIGNESS AS USUAL? But in this larger, the free-market techies do believe that new competition will actually prevent abuses have a better case. Congress has a role to play in protecting public interests as the nation's telephone and cable-television systems evolve, but for the most part, Washington should butt out. "Congress loves to play this game—that not a sparrow will fall unless they will it," says Reagan Administration antitrust chief William F. Baxter, now a Stanford University law professor. "The best thing they can do in this case is to stay the hell out of the way."

Much of the concern in Washington

stems from the sheer size of the communications combines that are now emerging. But even the most aggressive trustbusters have abandoned the notion that bigness is bad *per se*. Size will be increasingly important in the communications industry—and consolidation such as the Bell Atlantic deal is being driven by fundamental economic forces. New technologies, such as the



wireless phone systems known as PCS, or personal communications services, are expensive. Companies need deep pockets to develop them.

There are more important issues for regulators to address. One is safeguarding competition in the short term. Since most U.S. homes are already wired both for phone and cable service, chances are good that most Americans ultimately will have access to two competing information highways. But for now, it makes sense to prevent cable

operators and local phone companies from buying systems in their service areas. Bell Atlantic plans to avoid that issue by spinning off TCI operations that overlap its own.

BANDWIDTH SHARE. The government should also ensure that the owners of the information highway provide access to all comers at a fair price. Former Lotus Development Corp. CEO Mitchell D. Kapur suggests that the government allow the owner of each information network—whether a phone company, a cable operator, or someone new to the business—to use part of the "bandwidth" as it wishes—but require that the remainder be regulated for public uses. "There is a government role in making sure that common carriage continues to mean something," says Kapur, who is now chairman of the Electronic Frontier Foundation, a group that advocates open communications networks.

Finally, telephone companies still enjoy local-service monopolies—and will for some time to come. The government should make certain that the Baby Bells don't use monopoly profits to subsidize new, unregulated activities, such as video-on-demand.

These are vital concerns. But there is plenty of room to provide the needed consumer protections and still allow, even encourage, construction of a private information infrastructure. If Congress and the Clinton Administration drag their heels, they risk crippling the development of new services and markets that were unimaginable just a few years ago. Policymakers should bet on their hopes for the future, not take counsel from fears of the past.

Lewyn covers communications policy for BUSINESS WEEK from Washington.

THERE'LL BE A HEAVEN FOR COUCH POTATOES, BY AND BY

Getting wired for interactive services is a complex feat of engineering



It's 2003, and the bright promises of a decade ago have come true: You really can watch Rush Limbaugh 24 hours a day, study slime mold in words and pictures, and even buy a shiny new couch, all without getting up from your old couch. Better yet, for the first time you have a choice of local phone companies. Interactivity is your life, and you're happy to pay a hefty monthly bill for it.

Sound good? Stop and think for a minute about what's going to make all this possible. Building the information highway across America will be a feat of

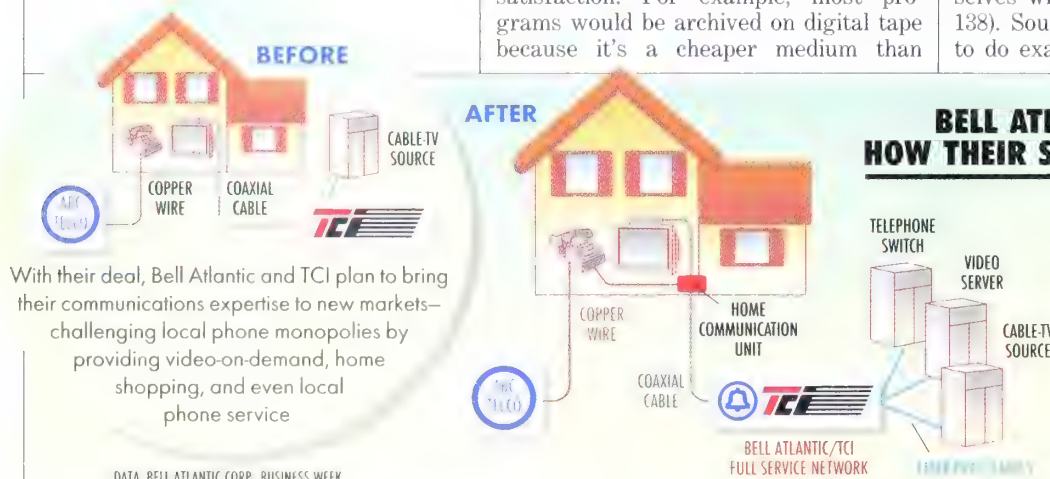
eotape from a library and empties the contents onto a magnetic platter, which resembles the hard-disk drive in a personal computer. From there, the video is sent in bursts to silicon memory chips. It then streams off those chips and is directed through a high-capacity switch to fiber-optic lines that extend to a box in your neighborhood. The box takes the light pulses from the fibers and converts them into electromagnetic pulses, which go over a coaxial cable to the box atop your set, and then to the screen.

Got that? The sequence may seem byzantine, but it has been designed to keep costs as low as possible while satisfying couch potatoes' craving for instant satisfaction. For example, most programs would be archived on digital tape because it's a cheaper medium than

actions. By contrast, notes Patrick J. White, assistant vice-president at Bellcore, the Bells' research arm, "transactions [phone calls] represent the entire telephone business today."

So it's a natural fit. Bell Atlantic plan to bring its expertise to bear on TCI properties that lie outside Bell Atlantic's service area. It will bolster the TCI fiber and coaxial network with phone and video switches, plus lots of video server systems, which consist of the above-mentioned platters and chips (illustration). Details of the systems—such as whether the home communication unit is served by coaxial or fiber and whether it's inside or outside the house—will depend on economics. Local phone service may or may not be provided. "The exact architecture is not a religious matter with us," says John W. Seasholtz, Bell Atlantic's vice-president for network technologies.

NEW THREAT. Back home, Bell Atlantic must guard its flanks from counterattacks by other companies that have their own highway visions and ally themselves with local cable companies (page 138). Southwestern Bell Corp. threatens to do exactly that through its \$650 million



BELL ATLANTIC AND TCI: HOW THEIR SYSTEM COULD WORK

In areas where TCI operates but Bell Atlantic does not, the new company may install switches so that phone calls can be delivered to homes over TCI cables. Meanwhile, TCI's network will be upgraded with new computer servers and switches to deliver interactive services and video

engineering as massive as constructing the railroads after the Civil War or the interstate highways after World War II. The groundwork is being laid now, in the form of transactions such as the proposed \$12 billion acquisition by Bell Atlantic Corp. of TeleCommunications Inc. **CLICK, CLICK.** To understand how important this deal will be, consider the complex technology that will underlie video on demand, which is expected to be a main revenue-generator of the new networks. The idea is that you can watch anything in the video library, anytime. Your computerized television—call it a telecomputer—lets you scroll through a menu of programs, click on your choice, and send an order up the line.

That's where things get hairy. In one scenario that's being studied, a robot-like jukebox pulls the correct digital vid-

eo tape from a library and empties the contents onto a magnetic platter, which resembles the hard-disk drive in a personal computer. From there, the video is sent in bursts to silicon memory chips. It then streams off those chips and is directed through a high-capacity switch to fiber-optic lines that extend to a box in your neighborhood. The box takes the light pulses from the fibers and converts them into electromagnetic pulses, which go over a coaxial cable to the box atop your set, and then to the screen.

All this helps explain why cable and phone companies are so attracted to each other. Cable companies' coaxial lines have enormous carrying capacity—not as much as optical fibers, but far more than copper phone wires. On the other hand, phone companies are masters of the other parts of the business: switching signals down the right fiber pipelines, maintaining high reliability, and measuring customers' usage so detailed bills can be sent. To date, limited pay-per-view revenue is the cable industry's only experience with on-line trans-

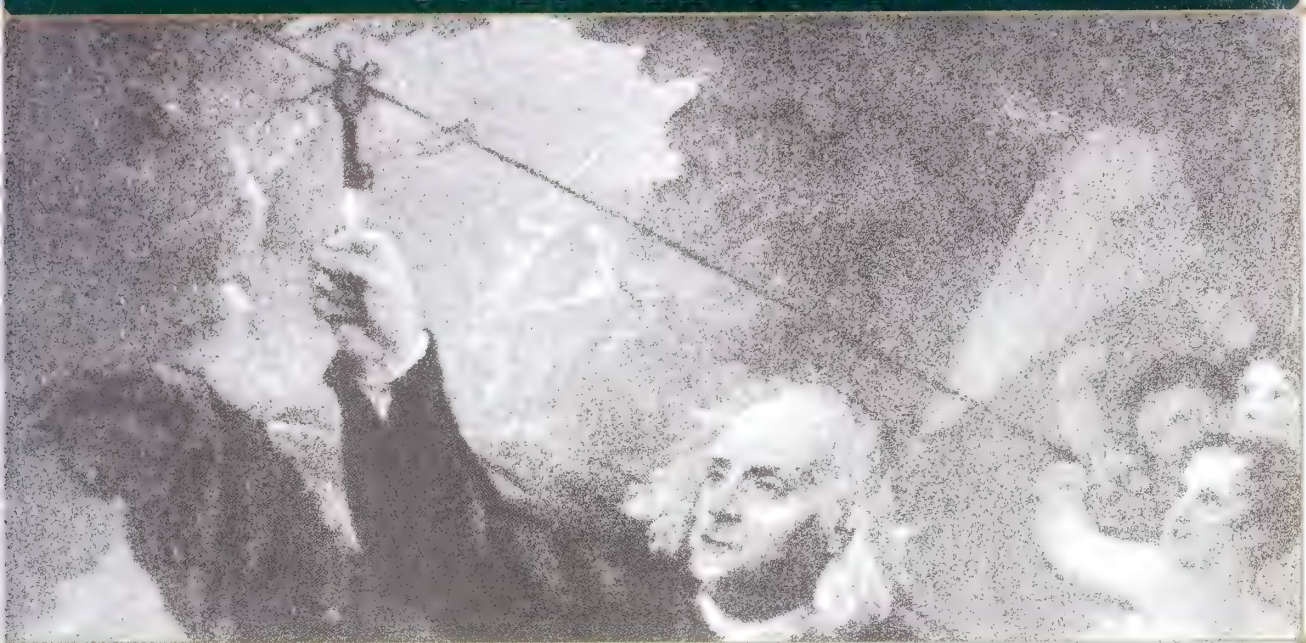
mission purchase of two Washington (D.C.) area cable systems. Bell Atlantic plans to sell all TCI cable properties in its service area to stave off antitrust charges. Instead, it is experimenting with other concepts: squeezing video signals onto plain phone wires by using digital compression techniques, adding fibers so fewer homes must share one, or even building a high-capacity network to be shared with the local, independent cable operator—as in Morris County, N.J.

Clearly, there's no single correct way to build the ramps to the information highway. It will take a lot of engineering smarts to customize networks to meet local needs at affordable prices. But the architects, such as Bell Atlantic and TCI, are starting now—in a big way. Couch potatoes need only lie and wait.

By Peter Coy in New York

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AIRLINE FARE: UNITED SAYS IT WILL SELL ITS 15 FLIGHT KITCHENS IF A UNION BUYOUT FIZZLES

THE AIRLINES TO LABOR: BUY IN—OR GET BASHED

United and American offer deals to unions and brandish an ax

It's finally Labor Day for the airlines. After months of posturing about the need to slash labor costs, industry leaders United Airlines Inc. and American Airlines Inc. now seem poised to act. United Chairman Stephen M. Wolf has warned his unions that unless they complete a deal to swap concessions for an ownership stake by Nov. 13, he'll proceed with drastic plans to overhaul the airline and chop thousands of jobs. American, meanwhile, has threatened to replace 21,000 flight attendants if they strike in November. And Robert L. Crandall, American's fiery chairman, is calling for the carrier's other unions to slash labor costs by up to 20%—the first time he has put a specific figure on how big a cut he wants.

There's no stepping back from this confrontation. Neither Wolf nor Crandall argues that labor is the cause of the industry's woes. But the companies are being hurt by continued weak demand for travel and hounded by rivals such as Southwest Airlines Co.—which has unit costs, at a mere 7.1¢ per seat-mile, up to 25% below their own. The carriers have little control over other big-ticket items, such as fuel and commissions, and they have been unable to halt

their fare wars. So they want labor cost cuts at least as big as the ones Northwest Airlines Inc. recently won from its unions (chart). Declares Crandall: "The airline simply will not work unless we reduce our current labor costs."

Both Crandall and Wolf are trying a mix of threats and promises. Wolf is working with his unions to craft an employee buyout that would trade some \$4 billion in cuts for up to 60% of the carrier. Crandall says he might do a swap, too, but his unions don't want to play.

SABER RATTLED. In lieu of cooperation, Crandall is getting tough. In early October, American sent pamphlets to its flight attendants warning that it may permanently replace those who strike, as the union has threatened to do by Nov. 22. "If that's what we have to do, that's

what we're going to have to do," says Robert W. Baker, American's operations head.

Crandall also laid out to American managers for the first time just what he wants from labor: work-rule changes plus the right to farm out union jobs to subcontractors. Donald J. Carty, American's planning chief, says such changes would save up to 20% of the company's \$5 billion annual labor bill. He concedes, however, that it then would need 20,000 fewer workers—a stunning 21% reduction. In exchange, American would offer buyouts and job guarantees.

United's Wolf is rattling sabers, too. Insiders say the carrier has agreed in principle to sell the unions more than 50% of the airline, but only if they improve their initial bid of \$3.345 billion in wage-and-benefit cuts over five years. The unions have offered to save \$6 million more by helping to set up a new low-cost subsidiary to compete with short-haul rivals. Management envisions a 7,000-employee carrier after five years with revenues of \$1.6 billion and earnings of \$206 million, negotiators say. If the talks have bogged down over work-rule changes for the new operation and over how big it should be allowed to grow,

MORE BITE. With a chance that a buyout will fail, United has been cooking up alternatives. Wolf says to avoid mass outsourcing, a buyout must be done before the carrier completes the sale of its 15 flight kitchens, which employ 5,300 workers, on Nov. 13. Now, he's adding teeth to his warning: United recently took bids to outsource work done by 2,800 mechanics in San Francisco, says President John C. Pope. It also has bid for the work of New York City-area ground crews and plans to hire low-wage flight attendants overseas.

United, meanwhile, is also talking with bankrupt America West Airlines Inc. Insiders say the companies are examining whether United should buy America West or forge some other tie to allow it to operate United's short-haul routes should the union buyout fail. However, these backup plans could

backfire. Already, the flight attendants left the talks as they left. United opened a new base in Taipei on Oct. 1 in Taipei, where it will hire lower-wage attendants to staff flights in Asia.

The big airlines seem set to be overhauled. The question: Will managers and labor do it together, or will change be imposed from above and fought from below?

By Kevin Kelly in Chicago and Wendy Zellner in Dallas, with Aaron Bernstein in New York

BIG AIR PUSHES FOR LOWER COSTS

United and American want to follow Northwest by swapping equity for union concessions

UNIT OPERATING COST PER SEAT MILE
FOR YEAR ENDING JUNE 30TH





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PUBLISHING



STERNOPHILES WAIT—NONE TOO PATIENTLY—FOR HOWARD TO SIGN THEIR PRIVATE PARTS

FROM RADIO RAGE, RAGING BEST-SELLERS

Books by Howard Stern and Rush Limbaugh are flying out of stores

There's a line five people deep winding around the block from the Waldenbooks store on Wall Street in New York City. Inside, people clutch multiple copies of radio shock-jock Howard Stern's book, *Private Parts*, and wait, none too patiently, to get them signed by the man himself. I am here only because Stern's people say he doesn't give interviews to reporters who aren't writing cover stories about him. So I stand with my book, hoping to get a few nuggets of Stern-speak with which to pepper this article.

I gaze around at the sea of humanity waiting with me. It seems a good cross-section of Stern's loud, mostly male, 25-to-54-year-old audience. Someone launches a volley of anti-Semitic remarks when he spots a man in a yarmulke. The man behind me is pressed so close I can smell the Bud Light on his breath. When I glare at him, he mumbles something that can't be printed here. I'd be offended, but what do I expect? These are Howard Stern fans, after all.

Term it the triumph of the politically incor-

rect, a rage for radio reactionaries. Whatever you call it, Stern is riding the crest of the wave. He's been drawing crowds like this since Oct. 7, when his book hit the stands. Sales are spectacular: In just 12 days, demand pushed *Private Parts* into a seventh printing—that's more than a million copies, says Simon & Schuster Inc. Now, the publisher is eager for Act II: its November release of talk-radio star Rush Limbaugh's next book, *See, I Told You So*.

Publishers have long known that controversy sells books. But the industry has hit almost unprecedented pay dirt in these two reviled and revered radio hosts. And if you doubt whether tales of such Stern gags as Butt Bongo and Lesbian Dial-a-Date make compelling prose, keep in mind that *The Howard Stern*

Show is the No. 1 morning radio show in New York, Los Angeles, and Philadelphia, and a leader in 11 other markets. Limbaugh also outrages legions of teners—with his lambastings of "femazis" and "environmental whackos"—yet some 20 million tune in to his radio and TV talk shows each week.

AIR PLUGS. In many ways, it's a marketing-driven trend—if you want to be what these guys do marketing. Books get plugged often on the air. "In a lot of respects, publishing is still a cottage industry," says Steven Morvay, senior vice-president of marketing for Waldenbook Co. "With these two authors, the business is starting to really explore the idea of creating your own demand."

Shameless? Sure. But the book industry needs to boost sluggish sales. Many people find Limbaugh and Stern unimpressive. (Stern chapter titles include "Y I am Fartman.") Limbaugh weighs in with "Abortions and Rainforests.") But both authors clearly strike a nerve. Stern's tome hit the top of the *Publishers Weekly* nonfiction best-seller list almost as soon as it came out. And there are 2.4 million copies of Limbaugh's first book, *The Way Things Ought To Be*, in print a year after publication.

That bodes well for Simon & Schuster's plans to issue a 2 million-copy first printing of Limbaugh's new book, due Nov. 4. And some observers see hope here for a crossover bonus. Opines publisher Stuart Applebaum: "Who knows [Stern's fans] may like what they see, much, they'll go back and buy another book. They're cultural avatars."

The avatars at Waldenbooks are getting more obnoxious (if that's possible) as we get closer to Stern. Suddenly, I'm in front of him. "Ahh, there's a beeeeeautiful woman here," he says. "How ya doing, babe?" I go for the question: "Are you afraid Rush Limbaugh's book is gonna push you out of the No. 1 slot next week?" Stern autographs my book. "Naw," he says. "I'm not even worried about it. He's a big pumpkinhead." A security guard shows me aside.

Oh well. At least I have a quote, even though Stern calls Limbaugh a "big fat pumpkinhead" on every show. As I walk off, several Stern fans offer to buy my autographed copy. No way. After that experience, I want a souvenir. And who knows? Now that I've written about him, Stern may even roast me on the air.

By Julie Tilsner
New York



LIMBAUGH: "PUMPKINHEAD"

BOOK BATTLE

Author/Title	Copies in print	Pub. Date
WEBSTER'S NEW WORLD	2 million	
THIRD COLLEGE DICTIONARY		Sept. 1988
HOWARD STERN	1 million*	
PRIVATE PARTS		Oct. 1993
RUSH LIMBAUGH	2 million**	
SEE, I TOLD YOU SO		Nov. 1993

*Sales over 12 days **Planned press run
DATA: COMPANY REPORTS

Look

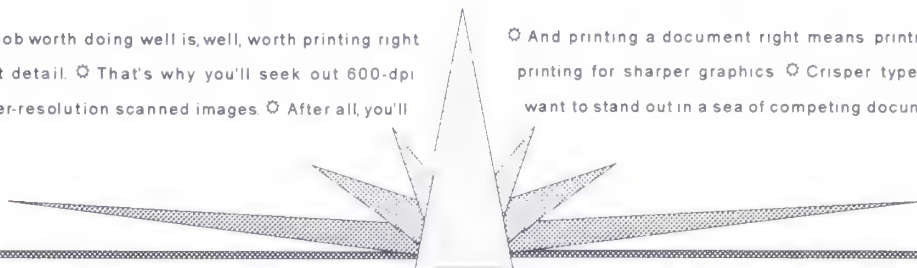
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ANYONE SEEN NAFTA BLUEPRINT?

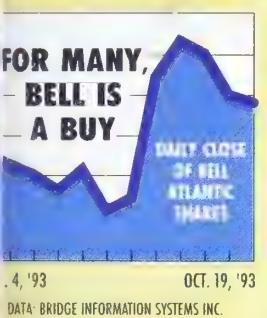
Former New York Mets manager Casey Stengel once remarked: Can't anybody here play this game? That's what reporters are starting to wonder about President Clinton's efforts to win passage of the North American Free Trade Agreement. On Oct. 19, the Administration proceeded—and then quickly backed away from—a plan to raise a \$5 fee increase on airline tickets to pay for lost jobs from trade liberalization with Mexico and Canada.

The Administration has to come up with \$2.4 billion over five years to fund NAFTA, under pay-as-you-go budget rules. The Clintonites are now considering changes in income-tax deduction schemes.

THE SUPER COLLIDER HITS A BRICK WALL

► The \$11 billion Superconducting Super Collider is nearing last rites. Opponents in Congress have been gunning for the mammoth Texas atom smasher for years, arguing that the project is too expensive. On Oct. 19, finally, the House voted to send a House-Senate appropriations bill back to conference with instructions to delete all funding for the SSC, which is designed to probe some of the deepest mysteries of matter and the universe. The project's staunchest Senate supporter, Bennett Johnston (D-La.), conceded defeat. "The House was wrong," he says. "But their message on deficit reduction and the SSC was clear and unmistakable."

LOSING BELL



GAMERGER—OR GA-MEGAMERGER?

Did anyone add? Here's a look at the price tags put on the Bell Atlantic/Tele-Communications deal: **\$11.5 BILLION** The conservative estimate used by BUSINESS WEEK for the value of stock deal. Excludes assets that can't be sold to Bell under current regulations. **\$4.4 BILLION** Time's and Newsweek's figure adds in TCI's Liberty Media debt. **\$11.5 BILLION** Commonly used. Assumes regulators allow Bell Atlantic to buy all of Liberty's TCI's assets, even those at odds with existing laws. **\$11.5 BILLION** The New York Times also factors in growth in other businesses by the time the deal is done.

WHAT CEOs THINK ABOUT THEIR BOARDS

► The tough standards outside directors are demanding for chief executives may cut both ways. A study of 124 large, public companies by executive recruiters Heidrick Partners reveals that nearly 40% of CEOs regard their outside directors as only "somewhat effective" or worse. And a big majority of CEOs think corporate performance would benefit from formal reviews of those outsiders. Yet fear of confrontation is cited by 63% of the same executives as reason for avoiding reviews.

JOHN SCULLEY IS HIS OWN PERSON NOW

► John Sculley wanted to savor the grit of being an entrepreneur. He'll get to. Three

HEADLINER

BARRY DILLER'S SILENT PARTNER

True to his reputation as the most secretive of media moguls, S.I. Newhouse Jr. remains mum about his \$500 million investment in QVC Network, announced Oct. 17. "He doesn't want to talk at all about this," says a spokeswoman.

Like it or not, the investment by his \$4.6 billion Advance Publications—which hinges on QVC's takeover of Paramount Communications—is bound to thrust Newhouse into the limelight. His sprawling empire, which consists of Condé Nast magazines, a newspaper chain, book publishers, and cable-television systems, places him squarely on the information-provider side of what QVC Chairman Barry Diller calls the evolving "ar-

chitecture of interactivity."

Hollywood insiders say Newhouse and Diller, longtime friends, had discussed a deal for weeks but that Newhouse actually took the initiative when Paramount came into play. The investment is atypical for Advance. But then, Newhouse has been tinkering with his empire recently. He abruptly shuttered his



Turtle Bay Books publishing house in February. In April, he bought tony *Bon Appetit* and *Architectural Digest*, then killed Condé Nast's *HG*, an *Architectural Digest* rival. Analysts say that Advance had to make a bold multimedia move now or risk being left behind.

By Elizabeth Lesly in New York

days after resigning as chairman of Apple Computer, Sculley announced on Oct. 18 that he'll head up tiny Spectrum Information Technologies, a player in wireless communications that hasn't turned an annual profit in all of its 10 years. What's more, Spectrum has been accused of hyping its growth potential and faces shareholder lawsuits. Sculley says he signed on with Spectrum because "I didn't want to be known as a professional manager going from company to company as a hired gun. I

wanted to be my own person." Another possible motive for Sculley: improving wireless technology. Such communication will be key to building sales of Apple's much-maligned Newton computer, a product Sculley personally led development on at Apple.

STORM CLOUDS OVER DISNEY LAND

► Not a good week for Walt Disney. First its EuroDisney resort outside Paris said it would cut its 11,000-person payroll by 9% (page 58). Then, Disney's studio took the unprecedented step of cutting a scene from its current film *The Program*—while the flick was playing in more than 1,200 theaters. Disney cut the scene, in which drunken football players lie down in a busy street to prove their toughness, after several teens around the country imitated the stunt. In Pennsylvania, one youth was killed.



APPLE NEWTON: SCULLEY'S BABY

SCULLEY: WISE FROM LEFT; CHART BY ERIC HOFFMANN; BW PHOTOGRAPH BY KATHY BARRIS; SY-AMA

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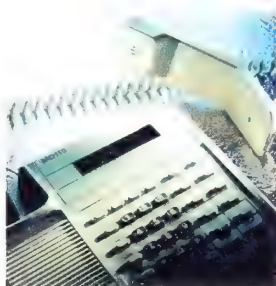
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LARS RAMQVIST, President and Chief Executive Officer, Ericsson.



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HEALTH REFORM: DELAY COULD COST CLINTON DEARLY

When Bill and Hillary Rodham Clinton trek to Capitol Hill on Oct. 27 to deposit a 1,600-page health-care bill on Congress' doorstep, the stirring reform drive White House launched in September will get a needed second wind. But Clinton will still have to pay a big price for the month with his advisers spent wrangling over the plan's financing. Public support for Clinton's health blueprint has dipped from 56% to 51%, a recent poll shows. And opponents of Clinton's heavily regulatory approach—Republicans and Democrats alike—have used the delay to build a head of steam for their own schemes.

The Clintons' trip to the Hill will be the next step in what some White House aides call a "relaunch" of the reform drive. To avoid numbing the public with details, the White House is preparing a 250-page summary. In the works: a book for general reading, probably bearing the First Couple's names, in stores by Christmas. And Administration officials will return to the stump, armed with details and budget estimates delayed during the September send-off.

LE MO. Photo ops and speeches should push health reform back on the front page—but that may not be enough to regain momentum. Congress' health committees, expected to start work on a bill originally promised for May delivery, are annoyed at Administration witnesses such as Health & Human Services Secretary Donna E. Shalala, who used the first round of hearings to discuss philosophy instead of details. Opponents, meanwhile, have put their own spin on the issue in the health sellathon. Liberals say Clinton hasn't delivered the details because his scheme can't match reality. "It's unicorns—we all know what they look like, but you can't find anyone who's ever seen one," says Representative Jim Dermott (D-Wash.), chief sponsor of a government-run

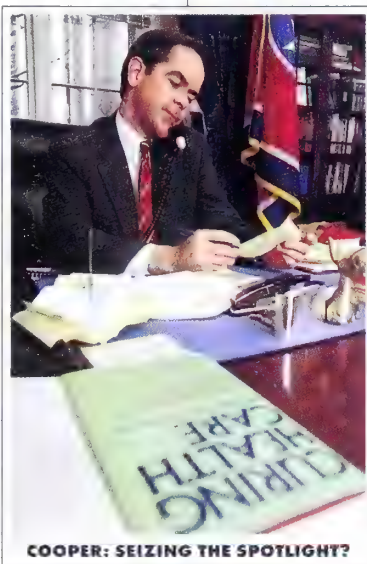
"single-payer" approach. From the right, Senator Phil Gramm (R-Tex.) paints Clinton's blueprint in red. "Middle America is not buying into Clinton's brand of socialized medicine," declares Gramm, who favors tax breaks for "medical savings accounts."

These flank attacks don't faze the Clintonites. They're much more concerned about the ground gained by Representative Jim Cooper (D-Tenn.), who has rounded up a bipartisan group of 50 House co-sponsors for his version of the health overhaul. Cooper's plan shares Clinton's insurance reforms and health-insurance purchasing pools. But it is much more appealing to business because it avoids Clinton's price controls and his requirement that employers pay premiums for all workers. Cooper claims his bill—a 300-page lightweight—"achieves most of the President's goals with less bureaucracy and less cost."

That's an attractive combination, especially for moderate Democrats. So while White House aides woo Senator John H. Chafee (R-R.I.), the author of a similar GOP measure, they're waging war against Cooper. His bill "is more right-wing than the Republicans'—and stupid to boot," says an Administration official, who claims that Chafee's plan will go further toward universal coverage. In the Senate, Democratic leaders warn that Cooper's plan would leave a reform-hungry public disappointed. "You have to make sure [Democrats] know, in the clearest possible way, what they're really committing themselves to if they sign on with Cooper," says a Hill strategist.

Some infighting was inevitable in such an ambitious effort. But Cooper and other reformers couldn't have grabbed the health-care spotlight if the White House had seized the moment after Clinton's speech in September. The price of delay: Clinton will have to share the stage from now on.

By Mike McNamee



COOPER: SEIZING THE SPOTLIGHT?

PITAL WRAPUP

CAMPAIGN FINANCE

The House Republican leadership knows that its views on campaign-finance reform will have little impact on legislation—but the GOP still plans to use the issue to inflict maximum embarrassment on the Democratic majority. Democratic candidates are far more dependent than their GOP rivals on large and corporate political-action committees and on large individual donations. So the Republican measure, which would ban all contributions by corporations, would require House candidates to raise at least half their war chests from within their districts. And that would put politically active executives

in a bind. To enforce the out-of-district limits, all contributors would be forced to give their voting addresses. Top executives, nervous about both their privacy and the security of their families, are often reluctant to reveal exactly where they live. Under Federal Election Commission rules, most contributors give only a business address.

COMPETITIVENESS

After two decades of grumbling, American business could get some relief from the Foreign Corrupt Practices Act of 1977. The law, passed following a string of palm-greasing scandals in the 1970s, bars U.S. companies from paying bribes or dispensing gratu-

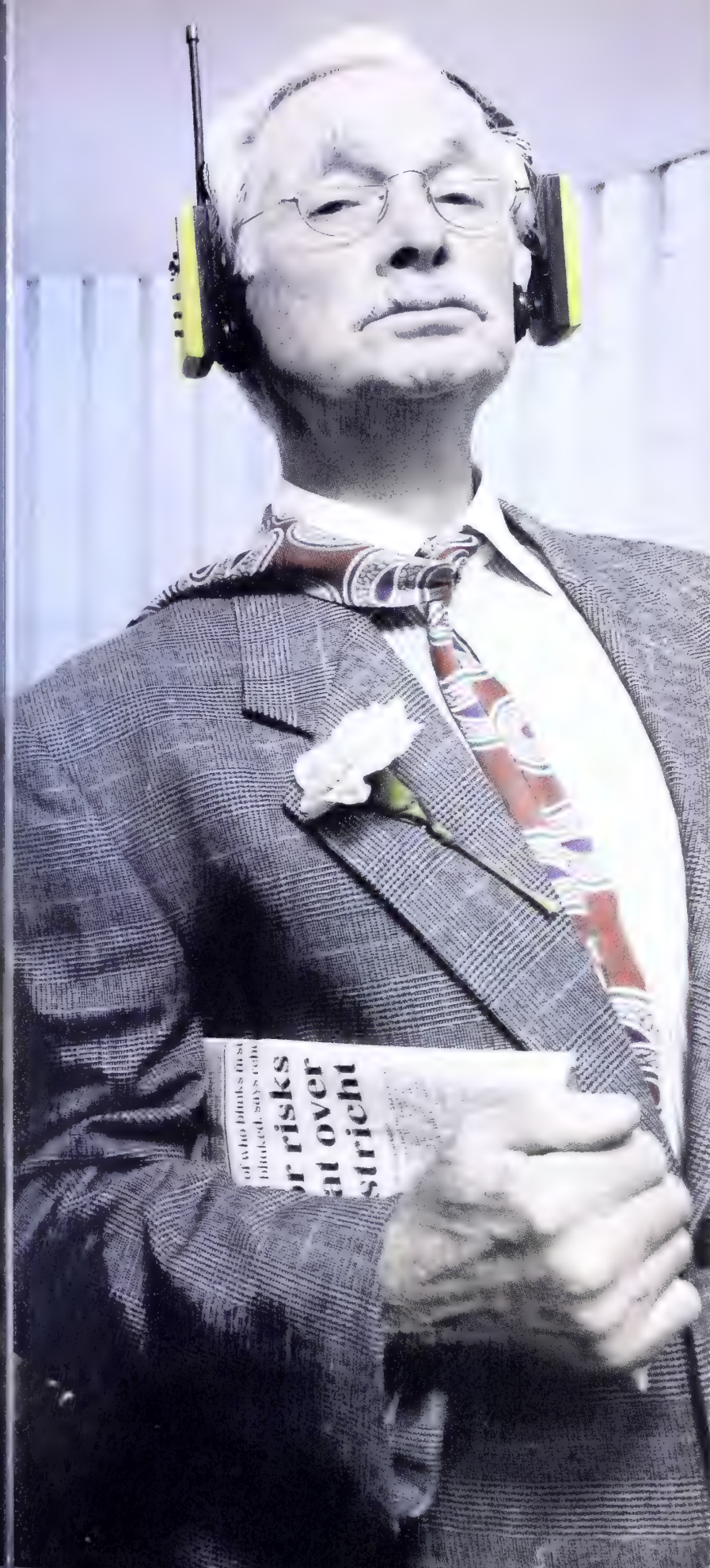
ities to sell overseas. American corporations have long complained that this puts them at a competitive disadvantage, especially in countries where the payment of *baksheesh* is a way of life. The Administration says it would reconsider FCPA if an international group, such as the 24-nation Organization for Economic Cooperation & Development, would develop a code barring commercial bribery by all of its members. Selling such an agreement could be a tough slog, however. Many OECD members don't want to surrender the advantage they now enjoy over U.S. competitors, and foreign companies are reluctant to change long-established ways of doing business.

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BITTER HARVEST: AS MANY AS 395,000 MEXICANS MAY HAVE LOST THEIR JOBS THIS YEAR ALONE

GEARING UP FOR A 'NO'

SALINAS IS REDOING HIS PLANS IN CASE NAFTA FLOPS

The fate of the North American Free Trade Agreement may be out of his hands, but that's not stopping President Carlos Salinas de Gortari. Mexico's *jefe supremo* is making one last blitz. In recent weeks, Salinas has toured South America, enlisting Latin neighbors to help pressure the U.S. to pass NAFTA. On a European trip in early October, he hinted that others, meaning Europeans and Asians, will be invited to share in the fruits of the Mexican market. Now he's preparing a series of moves to help ease Mexico through the economic aftershocks if the U.S. Con-

gress dashes NAFTA in a scheduled vote on Nov. 18. Ironically, some measures are a lot like the policies NAFTA was supposed to cement in the first place.

Salinas pledged on Oct. 3 that, NAFTA or no, Mexico will spend its \$6 billion budget surplus on wage hikes and tax cuts to stimulate the economy. In August, he pushed through legislation to make the central bank independent, a signal that politics won't interfere with economic policy. And aides suggest that immediately after a "no" vote, Salinas would roll out a more liberal foreign investment law and higher interest rates

to keep worried investors from sparking a run on the peso.

In a way, the lengthy debate NAFTA in both the U.S. and Mexico helped Salinas dampen expectations. Many Mexicans are starting to wonder just how much of an effect NAFTA will have on their battered economy in any case. A survey conducted by Banamex, Mexico's largest private bank, shows that when the treaty was first proposed in 1990, 67% of those polled thought the accord would benefit Mexico, providing jobs and investment. Twenty-five percent thought it would make little difference, and only 8% thought it would hurt Mexico's economy. By August, only 41.5% thought NAFTA would help, while 36% felt it would make little difference and 22% thought it would damage Mexico's economy. "It's obvious to everybody that the cost of NAFTA has gone up for the Mexicans, [while] other international priorities have gone on the back burner," says political scientist Jorge Castañeda, an informal adviser to the Democratic Revolutionary Party, who opposes the pact.

Certainly Mexicans have reason to be discouraged. By unilaterally opening

xico's long-protected economy to for-
n competition in anticipation of free
de, Salinas throttled entire industries,
has textiles and toys. The Confeder-
on of Mexican Workers estimates that
0,000 Mexicans have lost their jobs
year alone, as the economy slows to
annual growth rate of 1.4%. The
de balance, which was positive to the
e of \$1.67 billion in
8, showed a deficit
\$20.6 billion last

r.
Salinas' cheerleading
NAFTA has irritated
he Mexicans, who
he is kowtowing
much to the U.S.
eral months ago, he
ed in to U.S. pres-
e and agreed to al-
boatloads of Chi-
e refugees bound
the U.S. to be land-
n Mexico for repatri-
n to China. Earlier
month, as U.S. bor-
officials carried out
controversial "Open-
n Blockade" along
border near El Paso
cut back illegal
migration, Salinas
ely sent a written
omatic protest to
shington.

he negative publici-
may help Salinas pre-
for a possible cold
ulder from Washing-
but Mexicans are
ly to feel the chill
way. With \$23 bil-
in foreign reserves,
ico could survive a
porary run on the
without ordering a
ge devaluation.
ee-quarters of Mexi-
\$19 billion in short-
n debt is held by for-
i investors, earning
attractive 13% re-
n. Many could be
sued to stay put if
rest rates were
sted by a few points.

economist Rogelio Ramirez de la O
ns that such a move could tip Mexi-
economic slowdown into recession.
t would cloud the runup to the Au-
t, 1994, presidential elections, but de
thinks Salinas will avoid a devalua-
at all costs. "It all depends on how
ermined the government is to trade
growth for stability," de la O says.
r the meantime, Salinas has his stim-
s package, a carefully crafted plan
t's part of the government's annual
t negotiated with business and labor.

It features a little bit for everyone. In-
cluded are real wage hikes and tax cuts
for individuals and corporations, a reduc-
tion in utility rates, and direct subsidies
for Mexico's distressed agricultural sec-
tor. The package's \$6 billion price tag
equals about 1.7% of gross national
product, roughly the same as Mexico's
public sector financial surplus. Salinas

officials floated a trial balloon suggest-
ing that Mexico's superprotected state
oil monopoly, Petróleos Mexicanos,
might consider leasing pipelines for pri-
vate traffic.

NO MORE FAVORITISM? No one is pre-
dicting a serious anti-American backlash
if NAFTA sinks. But the soured relation-
ship could scuttle some deals. Key provi-

sions of the free-trade
agreement, such as the
opening of Mexico's fi-
nancial markets to U.S.
and Canadian banks
and brokerages, would
be rewritten. "If NAFTA
fails, we'll have to ditch
all of our plans to ex-
pand into Mexico," says
one American banker.
What's more, top offi-
cials say they would
open Mexico's doors to
bankers from all over
the world, eliminating
the special welcome mat
that had been intended
for the North Ameri-
cans. In fact, Salinas
plans to set off on a 12-
day Asian tour starting
on Dec. 10 to encourage
investment. Still, it
could take years to com-
pensate: Japan current-
ly represents just 5% of
Mexican trade, while
U.S.-Mexican trade ac-
counts for 73%.

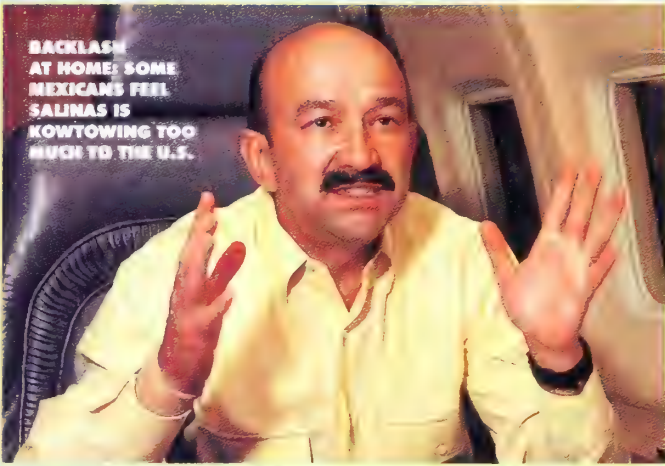
The economy may
well survive a NAFTA
defeat, but the political
price could be high for
Salinas and the PRI. Po-
litical opponents are al-
most gleeful at the
prospect of a "no" vote,
hoping the PRI's black
eye would give them a
better shot at winning
the presidential elec-
tions—for the first time
in 65 years. Salinas,
meantime, is scram-
bling to put the best
face on things, promis-
ing to keep up Mexico's
credentials in the world
economy.

For starters, Salinas plans to sign a
free-trade pact with Venezuela and Co-
lombia before yearend. In a recent meet-
ing in Chile, Salinas said that approval
of NAFTA would end years of conflictive
relations with the U.S.: "We are two
neighbors that have had a very compli-
cated history, traumatic, particularly for
the Mexicans." Clearly, the trauma isn't
over yet.

By Geri Smith in Mexico City

SALINAS COMES UP WITH A CONTINGENCY PLAN

**BACKLASH
AT HOME: SOME
MEXICANS FEEL
SALINAS IS
KOWTOWING TOO
MUCH TO THE U.S.**



**STEPS
ALREADY
TAKEN...**

- ▶ Negotiated a new census pact with business and labor granting moderate wage hikes, tax cuts, and some subsidies to stimulate faltering economy
- ▶ Pushed through legislation making the central bank independent
- ▶ Agreed with Venezuela and Colombia to limit a regional free-trade pact after the Jan. 1, 1994

**...AND
OTHERS
AVAILABLE**

- ▶ Money-worthier foreign investment law could lure investors' investments in low-cost, high-growth sectors
- ▶ Boost interest rates to reduce money market and currency fluctuations
- ▶ Reproductively encourage investment for basic infrastructure, mostly Asia

had been saving that surplus for a rainy day. That day has arrived, in the form of a torrent of laments.

Few analysts believe, however, that Mexico would retreat from its open-market policies if NAFTA fails. On the contrary, many think Mexico would take steps to make itself even more attractive to overseas investors. An updated foreign investment law offering new incentives and guarantees is ready to be submitted to Congress as soon as Salinas deems it necessary. A few weeks ago,



'THE SINGLE MARKET ITSELF IS IN QUESTION'

Soaring unemployment jeopardizes the EC's greatest achievement

When Jacques Delors, the European Community's designated visionary, peers into his crystal ball these days, he sees nothing but gloom. In an Oct. 17 address, he warned that European "drift" could turn the community into a soulless free-trade zone or eventually even break up the EC.

Of course, the EC Commission president might be expected to overdo the negatives, given all the setbacks the EC has suffered lately. But as community leaders prepare to gather for an Oct. 29 special summit in Brussels, there are very few bright spots to be found. Although the Maastricht Treaty has been ratified, its key planks—Delors' cherished political and economic union—are probably on ice for at least a generation. Now, with unemployment soaring into the 12% range, concern is growing that the next victim might be the spirit, or even the letter, of the single European market. "The single market itself is in question," says David de Pury, co-chairman of giant Asea Brown Boveri Inc. "It will be hard to maintain the basic 1992

This assessment would still shock the many Europeans who assume that the single market, officially launched 10 months ago, is on track. But anecdotal evidence, in the form of business deals,

legislation, and subtle EC policy shifts, is suggesting that the single market, still really a work in progress, could yet stall out (table).

To date, of 219 EC laws called for in the blueprint for the single market, just 106 have been implemented with the necessary national legislation in all 12 member countries. But rising unemployment and trade tensions are making it tougher to finish the job.

Awards of lucrative government contracts are a prime example of backsliding. The single market's intent was to

establish pan-European competition for public procurement projects by making the bidding process on such work more transparent. But ABB executives say that across Europe, contracts for major infrastructure work, such as power plant and rail projects, are effectively open only to those who guarantee jobs, not those who can deliver the greatest efficiency. French suppliers, for example, have already sewn up most major contracts to work on France's high-speed train expansion through the rest of this decade.

SHIFTING GROUND. The growing tendency to favor job preservation over boosting competitiveness is throwing some investment decisions into question. Michael Collier, London-based chief operating officer of Waste Management International Inc., blames pressure to preserve existing jobs for tying up legislation in Brussels that would upgrade environmental standards for waste processing and landfill development. So the company's major investments in cleaner and more efficient technology are not giving it any advantage in dealing with less efficient competitors. "We anticipated a level playing field and an upgrading of standards that haven't occurred because of economic conditions," Collier says.

The battering of the French franc and other EC currencies over the past year could spark an attack on the free flow of capital that is another foundation of the single market. For example, French Finance Minister Edmond Alphandéry is calling for new rules on banks and insurance companies that would likely give national governments the right to curbing currency speculation.

Greece, which takes over the EC presidency in January, is already sending a dubious message to Europeans who support privatization of monopolies as an extension of Europe 1992's free-market spirit. After returning to power on Oct. 1, socialist Prime Minister Andreas Papandreu very quickly scrapped plans to privatize the state telephone monopoly. French postal workers went on strike in October to protest a feared privatization of the phone companies.

One factor that will work against protectionist drift is that unlike in past eras, global competition prevents Europeans from falling back on strategies that are based only on national markets. But as Delors & Co. grapple for cures for today's ills, they would be well advised to make sure that the single market initiative, Europe's great achievement over the last three decades, isn't being jeopardized.

By Bill Javetski in Paris and Patrick Oster in Brussels

WHERE THE EC IS BACKSLIDING

PROCUREMENT

Companies say job creation is deciding factor in awards of big public contracts

COMPETITION

EC officials may allow mergers that lessen competition if they save jobs

CAPITAL FLOWS

France is pushing to limit banks' and insurers' ability to finance currency market speculation

SUBSIDIES

New bailout schemes for industries such as steel and airlines will test whether the EC will let white elephants die

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FRANCE

THE CEO GUILLOTINE IS BUSY AGAIN

Heads are rolling at state-run companies—but for a new reason

After becoming France's Prime Minister last April, conservative Edouard Balladur vowed to avoid the usual witch hunt at state-owned companies—where chief executives linked to the outgoing Socialists would normally start emptying their desks. He kept his promise—for a while. But now, Balladur is ringing in France's corporate witching hour. Two key CEOs have already been dumped, most recently Bernard Pache at computer maker Groupe Bull on Oct. 18. And several others, including Bernard Attali at strike-plagued Air France, may leave soon.

Balladur's housecleaning isn't entirely a political vendetta, however. With France deep in recession, many state companies are in dire shape—too weak to be privatized as the conservatives would like. Naming new chief executive officers to revitalize them—or at least bring a fresh image—may make sense. It's crucial that Balladur pick the right people: This is probably the government's last chance before privatization to name managers at state corporate jewels and to assure their global competitiveness in days to come.

At Crédit Lyonnais, Jean-Yves Haberer's aggressive expansion and disastrous film-industry lending have produced losses—\$250 million in the first half of 1993—and hurt the reputation of France's biggest commercial bank. Haberer is sure to leave shortly, probably to be replaced by Jean Peyrelevade, the widely respected chairman of France's biggest insurer, Union des Assurances de Paris.

MICROMANAGING? But even if Balladur aims to heal sick companies, critics claim the illnesses result less from bad bosses than from government meddling. And that includes replacing CEOs too often. Moreover, the criteria for chairmanship typically put political connections above knowledge of a company's business. Bull's new chairman, Jean-Marie Descarpentries, may have served as a Bull director until last year, but he formerly ran a maker of food and beverage cans, Carnaud Metalbox. His predecessor at Bull, Pache, likewise had no computer-industry experience. A mining engineer, he previously ran France's major coal producer. Pache's 15 months at Bull

were barely enough time to start learning the computer business.

At Air France, dumping Chairman Attali "won't change anything," claims a senior pilot, because his successor would be another political appointee unable to shake up the carrier's stodgy culture. High government sources confided re-



To prove he's not playing politics, Balladur is giving new jobs to the ousted CEOs

cently that they would probably keep the Socialist-appointed Attali for a few more months to "do the dirty work" at the high-cost airline. He's chopping 4,000 jobs—8% of the work force—and suffering labor strife as a result. On Oct. 19, several thousand employees began blocking the runways at Paris' Charles de Gaulle Airport in a shutdown that is

costing Air France \$12 million a day.

French leaders claim that the new crop of CEOs will have greater autonomy than their predecessors to engineer last ditch turnaround attempts. At Bull, "the market will be the judge—not the state anymore," promises Gérard Longuet, France's Industry Minister. Longuet says a \$1.7 billion aid package that Bull's Descarpentries will receive—Brussels agrees—will be the last infusion of state capital. Bull has lost \$1 billion over the past five years.

If Descarpentries does get cart blanche, Bull may be in for a jolt. He might break the company into pieces, closing or selling weak businesses. Personal-computer manufacturing might be turned over to Bull's new U.S. partner, Packard Bell Electronics Inc. Predecessor Pache apparently balked at splitting up the company, one reason he's on the street. Bull's new boss might also cut more than the 6,500 jobs currently planned in a restructuring.

MGM, ANYONE? Crédit Lyonnais also faces a tough turnaround. Shaky loans mean the bank needs more capital soon, possibly as much as \$2.5 billion. UAP's Peyrelevade has apparently won a government promise to help supply some of it. French bankers think he would also sell bank assets. The most obvious candidate is the Metro-Goldwyn-Mayer Pictures Inc. film studio.

The French bank is its reluctant owner, a result of loans gone bad and must sell it, under U.S. law by 1997. Haberer has wanted to turn the studio around first. But Peyrelevade might entertain offers sooner, possibly encourage by the ongoing bidding war for Paramount Communications Inc.

To prove he's not just playing politics as usual, however, Balladur is giving new jobs to the Socialist-tainted CEOs he's removing. Crédit Lyonnais' Haberer has been offered the chairmanship of a smaller state bank, Crédit National. UAP's Peyrelevade has no Socialist ties. The former chairman of giant Elf Aquitaine, Loïk Le Floch-Prigent, has been given the state natural gas utility despite his close friendship with France's Socialist President, François Mitterrand.

If they manage well, France's new CEOs will survive to see their companies privatized—and thus may hang on their jobs longer. That could help not only their personal peace of mind but also the strength of French corporations that have long suffered from revolving-door politics.

By Stewart Toy, with Jonathan Levine, in Paris

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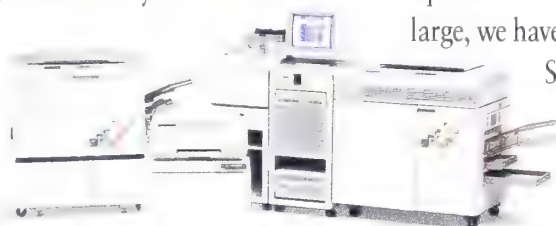


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CLINTON'S SPLIT PERSONALITY ON FOREIGN POLICY

Consider two recent images of Bill Clinton. In July, there was the confident leader dominating the Tokyo economic summit by mustering aid for Russia and pushing for trade liberalization. But by October, the President is beleaguered—on the defensive over Somalia and mixing up military terminology in announcing a blockade of Haiti.

How could Clinton's handling of foreign policy go from finesse to fumbles in such a short time? The answer may lie in the mantra of the Clinton campaign: "It's the economy, stupid."

PROBLEM PALS. The President is at his best when there is a domestic economic dimension to an international problem and at his worst when confronted with a military crisis. But if Clinton

doesn't get up to speed pronto on crisis-handling, his Presidency and his plans to promote economic security will be jeopardized. Already, Congress is threatening to clip his foreign policy wings. One wonders just how long it will take for troublemakers from North Korea to Iran to conclude he is a pushover and flex their muscles.

Clinton has shown that he can perform well on foreign issues when they interest him. Witness his aggressive push for economic aid to Russia, a get-tough trade posture toward Japan and Europe, his support for the North American Free Trade Agreement despite strong opposition within the Democratic Party, and his move to strengthen economic ties with Asia by attending the 15-member Asia-Pacific Economic Cooperation meeting in Seattle on Nov. 19-20. He is also scrambling, albeit belatedly, to ease strains with China, Asia's emerging economic titan.

But when grappling with the post-cold-war world's hot spots, Clinton has appeared inattentive, inconsistent, and amateurish. The Administration paid little attention to the festering situation in Somalia until the Oct. 3 killing of 18 American servicemen forced the President to scramble for a way out.

Further chagrin came on Oct. 8, when a mob in Port-au-Prince blocked a U.S. Navy ship from unloading troops to a Haitian President Jean-Bertrand Aristide's return to power.

Clinton courted these troubles with his choice of top foreign policy players. Les Aspin was chosen to head the Pentagon not because of his military expertise but because of the management skills he could bring to trimming the military budget. In picking Warren M. Christopher, a cautious corporate lawyer with no sense of global strategy, to head State, Clinton signaled his intention to put foreign policy on a back burner. Indeed, all of the President's close associates who joined the Administration hold domestic posts except for Strobe Talbott,

former Oxford University roommate who is now Clinton's chief adviser on Russia. It's no coincidence Russia is the foreign policy area that has interested Clinton most.

FOOT IN THE DOOR. Of course Clinton's efforts to help Russia and his push for global trade agreements are of far greater importance to American interests than whether he halts the turmoil and bloodshed in Somalia, Bosnia, and Haiti. But he miscues in the hot spots are inviting Congress to grab a much bigger role

in foreign policy than it had under his Republican predecessors. His latest woes are also reinforcing an initial view among leaders in Europe and Asia that the U.S. is being led by a novice with a weak team.

But the gravest risk to Clinton is that dangerous foes such as North Korea, Iran, and Iraq will be tempted to challenge him. "I'm afraid Clinton will face a violent conflict," warns Eizo Utagawa at Tokyo's International Institute for Global Peace. If international bullies think they have free rein, the President could wind up spending his term dealing with them rather than the economic issues that he really cares about.

By Owen Ullmann in Washington



CLINTON HAS BEEN AT HIS BEST IN BACKING YELTSIN

GLOBAL WRAPUP

EURODISNEY'S WOES CONTINUE

Ill-starred Euro Disneyland aims to slash 950 jobs—8.6% of the total—to ease a growing cash-flow problem. The increasingly feisty French unions vow to fight the job cuts that will mostly affect administrative staff. Analysts think losses at the park, located near Paris, topped \$300 million for the year ended Sept. 30. The previous fiscal year, its first, saw a \$32 million loss in six months of operations. EuroDisney is seeking a capital increase from Walt Disney Co. of the U.S., 49% owner of the French park. And it's trimming prices at its cheapest hotels in hopes of luring more winter visitors. But de-

spite all these moves, the company still seems a long way from turning profits.

JAPAN LIMITS FOREIGN LAWYERS

Foreign lawyers are unhappy about the recommendations of a Justice Ministry report on deregulation of Japan's highly protected legal environment. If the suggested changes are implemented, foreign firms will be permitted to open offices under their own names and form partnerships with Japanese counterparts. But they still won't be able to hire or supervise Japanese lawyers. American lawyers say this provision means that local firms would likely keep their monopoly on international law practice.

EC CENTRAL BANKER?

Alexandre Lamfalussy, general manager of the Bank for International Settlements, is all but certain to head the new European Monetary Institute that the European Community will set up on Jan. 1, probably in Germany. The Maastricht Treaty called for the institute to serve as a precursor to European Central Bank, but with hopes of monetary union subdued, will likely serve more as a research facility. Andrew Crockett, an executive director of the Bank of England, the strong favorite to succeed Lamfalussy, who would have retired next year, in the prestigious BIS job.

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HOW MUCH GREEN IN 'GREEN' PAPER?

Demand for recycled paper is growing, but the costs are high

Not long ago, a big point of pride for U.S. papermakers was the sparkling-white quality of their office papers, which reap 25% of the industry's revenues and a disproportionate share of its profits. So look at what's happening now: This fall, Hammermill Papers will roll out a light-tan copier paper it calls "earth white." Georgia-Pacific Corp. will introduce "coastal white," a sandstone writing paper. They'll compete with Eureka!, a nearly white paper that James River Corp. trotted out last year. All three have two things in common: To varying degrees, they're made of recycled fibers. And they're aimed at a rapidly expanding niche in the \$131 billion U.S. paper market. "Every company out there is offering a printing and writing paper with some recycled content," says Red Cavaney, president of the American Forest & Paper Assn., a Washington trade group.

Most papermakers have come to this decision reluctantly. The industry is hurting after major expansions in the '80s that led to overcapacity and lower prices. It would rather make office paper the old-fashioned way—using wood from its vast timber holdings—than spend billions on recycling equipment.

TOXIC BLEACH. But customers are demanding more recycling so less paper goes to landfills. And pressure is mounting on the industry, now No. 3 in toxic emissions behind makers of chemicals and primary metals, to use less of the chlorine that bleaches paper white and gives off poisonous dioxins. President Clinton is readying an executive order that would make federal agencies buy writing paper with at least 20% recycled fibers by the end of 1994. And the Environmental Protection Agency is expected to publish draft rules this fall clamping down on the mills' toxic discharges.

Making high-quality office products of recycled material remains the last great technical problem for papermakers, which for 20 years have made cardboard, tissue, and newsprint that way (chart). The challenge with office paper is to remove the ink from once-printed

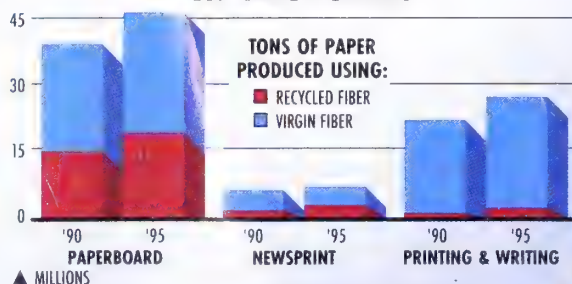
paper so the recycled version will be lily-white. But that's nearly impossible. The next best solution is to chemically separate ink from paper fibers using a flotation process, then mix the grayish recycled pulp with bleached pulp made from wood. Producers can buy recycled pulp, but that leaves them dependent on outside suppliers. So those who can afford to are investing in de-inking equipment. The drawback is cost.

Union Camp Corp. plans to spend \$100 million over the next two years at its Franklin (Va.) plant to turn 400 tons of office paper a day into recycled pulp. International Paper Co., Hammermill's parent, has bought exclusive North American rights to de-inking technology owned by Germany's Steinbeis Temmin Papier & Co. and has pumped \$95 million into its Lock Haven (Pa.) mill to make 100% recycled copier paper. The company also plans to spend \$300 million by 1995 at its plant in Selma, Ala., to de-ink and recycle 400 tons of paper a day. "Companies with strong balance sheets are moving into this area," says Evadna Lynn, a paper-industry analyst with Dean Witter Reynolds Inc. "Those with leveraged-up balance sheets"—she mentions Georgia-Pacific Corp.—"don't want to spend right now."

The laggards risk losing out on major orders. Big paper buyers, seeking to bolster their images with customers, are banding into groups such as the Recycled



HOW OFFICE PAPER LAGS IN RECYCLING



DATA: AMERICAN FOREST & PAPER ASSN., BUSINESS WEEK

TRICKY PROCESS: A JAMES RIVER CORP. DE-INKING FACILITY

d Paper Coalition on the West Coast. st year, its eight members bought 500 tons of recycled paper with up 20% reused fibers. This year, the up has grown to 68 members, includ- Bank of America, The Gap, and chtel Group. In August, the Environ- ntal Defense Fund forged an alliance t will harness the \$1 billion annual er-purchasing power of six compa- s, including McDonald's, NationsBank, l Time Warner, to demand more recy- d fibers in paper. This follows last r's decision by seven Great Lakes te governments to form a coopera- e to buy 14,000 tons of recycled copi- paper annually.

Weak paper profits are impeding se efforts. The Forest & Paper Assn. s that using 10% recycled fibers costs 5 more than using pulp from wood, an pleasant prospect with paper prices rock bottom. Uncoated copier paper plummeted from roughly \$1,020 per in 1990 to \$670 today. "I've been in business 34 years, and I've never n it this bad," says Thomas C. Norris, sident of P. H. Glatfelter Co. in ing Grove, Pa., which makes high- de business and specialty papers.

ANING UP. Still, the writing is on the ll: Probably by the year 2000, the of chlorine in papermaking will be erely restricted. Since being fined \$3 lion by the EPA in 1992 for toxic emis- is, Louisiana-Pacific Corp. has invest- \$100 million at its Samoa (Calif.) pulp l to bleach wood fibers using a more ironmentally friendly chemical—hy- gen peroxide. And experts say other panies will have to do likewise to cate the EPA. That won't be easy for ry producer—hydrogen peroxide ap- ently doesn't work well on Southern od. But the EPA is doing a major re- w of regulations that govern emis- is from paper mills, and the industry icipates more stringent standards t it estimates will cost \$6 billion to billion to implement by 1998.

The switch to environmentally cort office paper has just begun. The est & Paper Assn. figures that in 0, the most recent year for which it figures, just 6.4% of the fibers used office paper were recycled. That may tly reflect the premium of up to 10% h paper commands. Still, demand is ing up: The association sees the re- led content of office paper rising to 5 by 1995. To hasten that trend, EPA ministrator Carol M. Browner is urg- the BUSINESS WEEK 1000 companies recycle their share of the 80 million s of office paper that America throws ay each year. Once that happens, pa- buyers will have to decide whether ir desire to be green is stronger than ir preference for white.

By Mary Beth Regan in Washington

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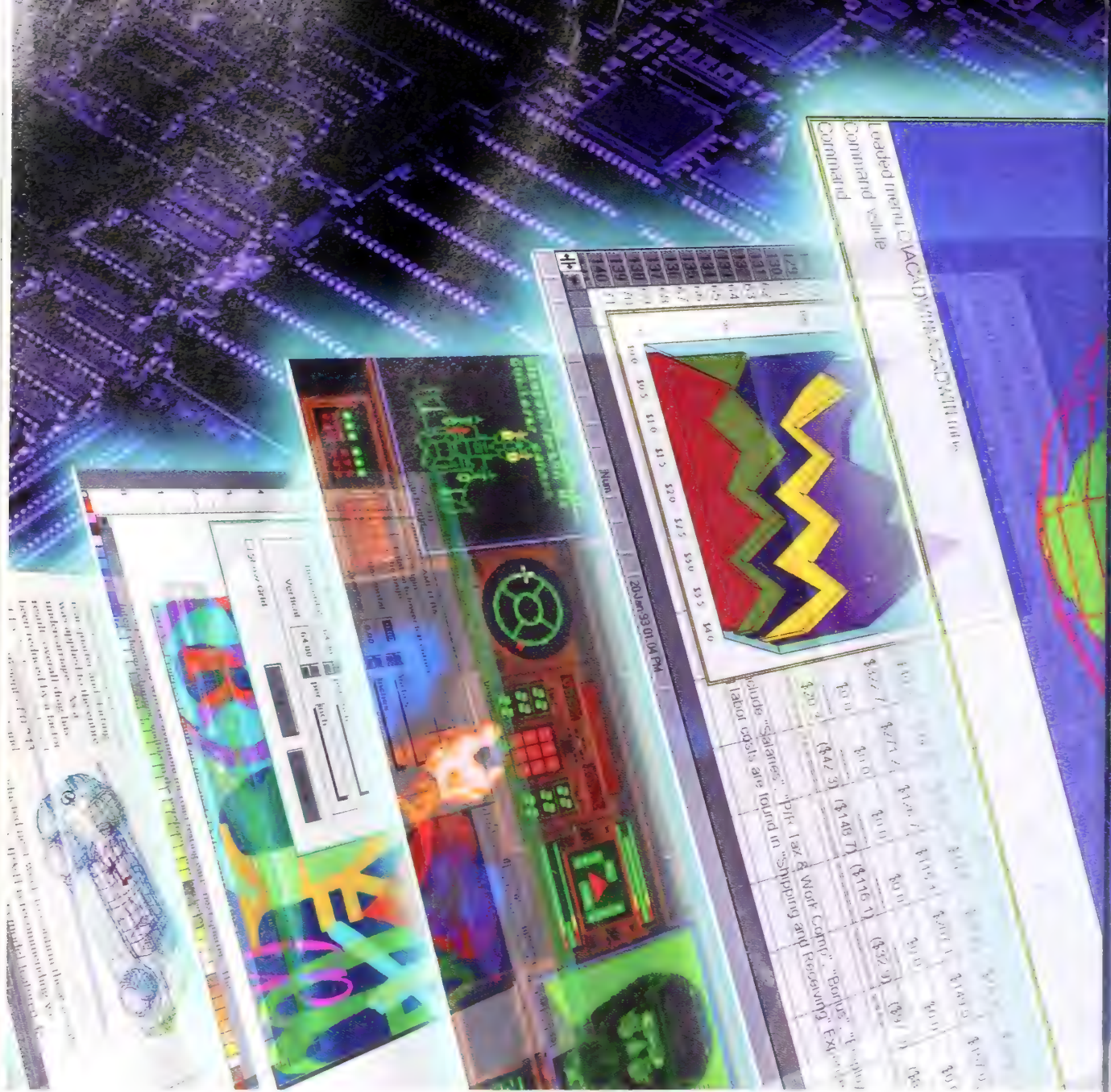
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THE FAST TRACK LEADS OVERSEAS

Globalization means more U.S. managers must make stops abroad

When Eric Phillips ended his White House Fellowship two years ago, he was eager to return to American Telephone & Telegraph Co.'s home office in Basking Ridge, N.J., and get his career back on track. Instead, his bosses asked the 10-year AT&T veteran to move to Brussels to manage sales of communication services in Europe. "I didn't want to move my family," says Phillips, 40, "I knew my wife would have to give up a wonderful job. But the company was going global. I had to go."

Phillips is one of a growing number of U.S. executives facing a similar career dilemma, as more and more U.S. companies look abroad for new markets. True, many corporations, such as Citicorp and IBM, have a long history of sending their bright young stars abroad. But a fresh crop of U.S. companies is searching for new customers overseas. Companies as diverse as AT&T, Gerber, Nynex, General Electric, and Dell Computer have announced their intentions to increase their revenues from abroad substantially.

HEADING OUT. And to do that, they're expanding their ranks of overseas executives. The numbers aren't huge yet, but the trend is accelerating. Nynex Corp. has 101 U.S. executives overseas, compared with virtually none five years ago. Dell Computer Corp., with no overseas staffing in 1988, now has 12 U.S. executives abroad. General

Motors Corp. has 485

U.S. managers overseas, up 15% from 1991. Gerber Products Co., with seven U.S. executives overseas, is thinking of tripling that number by 1995. Likewise, Motorola Inc. expanded its ranks of senior executives overseas by 10% this year, to 25, and plans another 10% increase for 1994. "We expect it to continue to in-

crease as a reflection of the fact that markets are opening up overseas," says a Motorola spokeswoman.

As companies' global ambitions grow, many fast-track executives now see foreign tours as necessary for career advancement. Gerber CEO Al Piergallini, who is building markets in Latin America and Central and Eastern Europe, says foreign assignments will be "emphasized" in the future as part of normal career development for his executives. As a result, Gerber's country manager in Poland feels he has an edge over many of his colleagues. "My overseas experience sets me apart from the rest of the MBA bunch," says Jan Lower. "I'm not just one of hundreds of thousands."

Getting one's ticket punched abroad wasn't always seen as a career enhancer. Throughout the 1980s, multinationals routinely sent executives abroad. But with merger mania and a booming domestic economy, most of top management's attention remained focused on the U.S. And when expatriates returned home, their skills didn't translate easily into a largely domestic strategy. So many middle managers concluded that taking an assignment overseas was an out-of-sight, out-of-mind career-killer.

That attitude has changed with grow-



ing corporate globalization. Most U.S. companies continue to beef up their overseas managements with foreign nationals, who have a good grasp of local markets. But U.S. companies that are just beginning to exploit new markets in Asia and Eastern Europe are also importing more U.S. executives. Many believe that homegrown talent has a better feel for their products and corporate cultures.

And with foreign operations becoming increasingly important to the bottom line, U.S. corporate culture is also changing. As executives at companies such as GM, GE, and Procter & Gamble, with years of experience abroad, move into top management positions, they are redefining the image of a successful executive. With Ford Motor Co.'s selection to replace retiring CEO Harold P. Ickong on Nov. 1 with Alexander J. Durrant, each of the Big Three auto makers

will be led by an executive with extensive foreign experience.

Small wonder, then, that companies are finding there's no lack of applicants for foreign assignments these days. "How many are we twist? Not many," says Nan Shepherd, manager of global human resources at Medical Systems. "We have far more candidates than we need for jobs offshore." Even executives who were formerly reluctant

GOING ABROAD?

Before accepting a foreign assignment, ask some basic questions:

IS YOUR COMPANY GOING GLOBAL? One indicator: Foreign sales are at least a quarter of total revenue and growing. It helps if top executives are overseas veterans.	HOW WILL IT AFFECT YOUR FAMILY? The biggest reasons foreign assignments fail are family-related. See if your company provides counseling to help you.
CAN YOU FUNCTION WELL ABROAD? If you're worried, find out if your company offers language lessons and courses to understand foreign cultures.	WHAT WILL YOU DO WHEN YOU RETURN? Discuss your next career step with superiors so you have hard evidence that your foreign tour will make a difference.



European companies. Consider Ross Matthews, who was hired away from Cigna Corp. in Tokyo by American International Group Inc. in 1989. "There are very few people with Japanese experience," says Matthews, who's in charge of marketing commercial insurance in Japan and Korea. With 13 years in Asia, Matthews, 37, can hit the ground running.

With foreign markets taking on more significance, so too has the importance of preparing expats-to-be for their foreign tours—and then holding on to them once they return. Time was when many U.S. executives were packed off with a one-way plane ticket and a few Berlitz lessons. But recently companies such as AT&T, GE, and Motorola have started offering execu-

tives and their families cultural training and more-intensive language programs to ease the transition.

AT&T's expatriate program is one of the most elaborate. Five years ago, the telecommunications giant had no defined policy on prepping expats. Today, in addition to cultural and language courses, executives chosen for overseas assignments develop career plans with their superiors to spell out what skills will

be enhanced abroad. More important, the plan offers possible ways those talents might be used when the executives return to the U.S. And to ease the isolation many executives feel abroad, AT&T also assigns a mentor—usually a senior executive at the home office—to each expatriate. The relationship allows expats to network within the company.

While such programs may make for happier employees, they also help ensure that the millions spent on expatriates won't be wasted. The cost of maintaining an executive in Europe can average two to three times a manager's base salary because of such added costs as a housing allowance and tuition for children's private school. It's even steeper in Japan, where cost-of-living adjustments can equal 80% of base salaries—and where employers often heavily subsidize an expatriate's stratospheric rent: It's not unusual for a visiting executive to pay \$11,000 a month for a modest house in a Tokyo suburb. All together, GM typically spends \$750,000 to \$1 million on an executive and his or her family during a three-year stint abroad.

MANY FAILURES. Despite the emphasis on assimilating executives and their families into new cultures, many still find overseas assignments tough. Even with all the new cultural training, the failure rate hasn't changed from the 1980s. As many as 10% of U.S. overseas managers still have to be yanked home because they don't perform well, says Hal Gregersen, a professor of business administration at Brigham Young University's Marriott School of Management and co-author of *Global Assignment*, a new book on expatriate executives. The inability of a spouse to adapt to a foreign culture is the leading factor behind the substandard performance Gregersen calls "brown-out."

Phillips' wife, Angela, 35, knows all too well about a trailing spouse's painful adjustment. She had to put her own career on hold, giving up her job as a market researcher. "It was very, very difficult to adjust," she recalls. "I had to stay at home and didn't have a structured day any-

d overseas for fear of disrupting families' lives or their spouses' careers. "Either you take up the tour or suffer the consequences later in your career," says S. Enders Wimbush of Runzheimer International, a consulting firm specializing on international staffing issues.

Who gets to go abroad? Loren Applebaum, vice-president for human resources at AT&T, says he looks for executives with appropriate skills. Phillips helped manage the installation of a new phone work for the U.S. government before his assignment. Applebaum prefers executives with a track record in launching a new business and those who have proven adaptable to difficult jobs. "They're the ones, he says, who will likely transition well in a foreign environment."

Executive recruiters report a brisk business in U.S. managers already overseas. "These people are worth their weight in gold," says John Utroska, an executive recruiter at R. Ray & Co. in Nevada who does searches for U.S. and



ROSS AND YUKO MATTHEWS SHOPPING IN TOKYO



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more." After spending the summer in Britain taking a course on physical-fitness instruction, Angela is thinking about giving fitness classes in Europe.

Despite the sacrifices, many expats say it's worth it. Mark Hogan, the 41-year-old head of GM's Brazilian subsidiary, says he has become a far more rigorous manager. General Motors do Brasil, GM's second-largest foreign unit after Adam Opel in Germany, is in a market where inflation is over 30% a month. "It's essential not to have any debt on your books and to turn inventory over as soon as possible," he says.

Joseph Timpanaro, who recently returned to Nynex' White Plains (N.Y.) headquarters, is also eager to put his skills to use at home. Timpanaro, 56, managed a Nynex unit in Britain that experimented with cable-TV lines to offer

local and long-distance phone service. Nynex hopes to sell similar services in the U.S. if there's further deregulation of the Baby Bells. In the meantime, Timpanaro has already been rewarded for his work abroad. He was promoted to senior vice-president for finance and strategic planning at Nynex' international division. Before his foreign tour, Timpanaro was a vice-president for business development at Nynex.

AT&T's Phillips feels he's getting crucial on-the-job training. He is handling a joint venture with UTEL, the Ukrainian national telephone company, to provide modern regional and international phone service. He has had to negotiate sales contracts that take into account Ukraine's lack of hard currency. He figures his skills could be applied in Eastern Europe, China, or Cuba. "I've

learned a lot about barter," he jokes.

U.S. companies still have a long way to go to develop a deep bench of executives with a truly global outlook, notes Brigham Young's Gregersen. He also says that the vast majority of U.S. executives are unconvinced that an overseas tour will lead to better opportunities. But clearly, many more executives are seeing the value of a stint abroad. Indeed, AT&T's Phillips isn't all that eager to get back to Basking Ridge. With his company on the prowl for new frontiers abroad, he is talking of an extended tour overseas. The way the career-minded Phillips sees it, what's good for AT&T overseas is bound to be good for him.

By Patrick Oster in Brussels, with David Woodruff in Detroit, Neil Gross in Tokyo, Sumita Wadekar Bhargava, and Elizabeth Lesly in New York, and bureau reports

WHY JAPAN'S EXECS TRAVEL BETTER

On the day Yasuo Sone joined Mitsubishi Corp. right out of school in 1962, he was asked if he wanted to go overseas. Mitsubishi, one of Japan's largest general trading companies, didn't need Sone's services abroad immediately. In a display of planning that would put many U.S. companies to shame, Sone's bosses were just sorting out who, over the next 40 years, would spend some time overseas.

That may sound extreme. But as U.S. companies staff up abroad in the increasingly competitive global environment, there's a lot they can learn, once again, from Japan. Japanese executives posted abroad are generally not as well-compensated as their U.S. counterparts, but they tend to be better prepared than American executives.

LONGER TOURS. How come? For starters, Japanese executives receive far more orientation and language instruction than U.S. expatriates. Eiji Mizutani, president of the Japanese unit of Wyatt Co., a human resources consulting firm, says Japanese companies emphasize orientation precisely because most Japanese lead much more insular lives than Europeans, or even Americans.

Once overseas, Japanese expatriates stay longer—five years is a normal tour. That, in turn, often allows them to develop a deeper understanding of

foreign markets. Indeed, Sone, 54, an executive vice-president of Mitsubishi International Corp., based in New York, is on his third U.S. tour. Although the U.S. stints have been interspersed with jobs back in Tokyo, Sone has spent a total of 10 years in the U.S. As a result, he says he has gotten very close to his American customers, who buy a wide range of Mit-

And because foreign tours are so critical for promotions, Japanese companies don't have to offer huge compensation packages to lure executives abroad. After adding in items such as cost-of-living allowances and tax protection, Japanese expatriates receive 120% to 150% of their base salary, according to J. Stewart Black, a professor of business administration at the Amer-

ican Graduate School of International Management in Glendale, Ariz. By contrast, U.S. executives get 200% to 300%.

Japanese expatriates also appear to perform better during their foreign assignments. A recent survey of 144 multinational companies by Rosalie Tung, professor of international business at Canada's Simon Fraser University, found that the Japanese typically don't suffer from the kinds of cultural adjustment problems that often afflict U.S. executives. Instead, inab-

ility to handle increased responsibility is the biggest reason Japanese executives fail overseas. And even that doesn't happen too often. Most Japanese companies responding to Tung's survey reported a failure rate of less than 5% vs. 10% to 20% for most U.S. companies. Judging by those results, a little planning can indeed go a long way.

By Patrick Oster in Brussels, with Neil Gross in Tokyo and Elizabeth Lesly in New York



subishi products, from chemicals to heavy machinery.

Japanese executives have long accepted the fact that a stint overseas is often necessary for career advancement. After all, their companies depend on exports. Some 50% of Mitsubishi's \$160 billion in revenues last year were earned abroad. And Mitsubishi says 1,000 of its 9,827 Japanese employees are posted abroad at any one time.

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have a portion of ultra-low polluting vehicles operating by 2000.

Other federal requirements will change the way gasoline is formulated beginning in 1995. This measure is expected to help reduce vehicle emissions by about 10%. Washington is studying a myriad of other vehicle-related environmental laws, including tougher fuel economy and emission standards.

A SMALLER FOOTPRINT

At the same time, vehicle manufacturers and their suppliers are stepping up their efforts to shrink the “environmental footprint” made by each new car and truck. One reason: It’s simply good business in an era of growing environmental awareness among consumers.

Car makers — prompted primarily by legislative mandate — have already found ways to double fuel economy and slash real-world emissions from cars 80% since 1970. Today's more space-efficient vehicles consume less raw materials too.

Car makers are also stepping up efforts to recycle scrapped cars. About 10 million cars are reclaimed by the U.S. scrap industry each year. Roughly 75% of their weight is being recycled already, but that may not be enough. Likewise, tire makers are working to whittle down the country's stockpile of 2 billion scrapped tires — including the equivalent of 350 million passenger tires added to the heap each year.

No one questions the need for clean and healthy environments. Indeed, studies confirm that environmental concerns will impact America's buying decisions for many years to come.

But the American public is not yet prepared to "buy green" at any price. Consumers remain very sensitive about the cost associated with environmentally friendlier products. That is especially true for big ticket items such as cars and trucks, where buyers aren't yet willing to trade utility, safety, and convenience for greener America.

Regulators march to a different set of priorities. They must balance the measurable need for a better environment against the political realities of achieving progress. As they do, they are raising fundamental questions about our nation's ec

omic and environmental priorities. There are no quick, easy answers when it comes to the car and the environment. The challenge for auto makers and their suppliers is to find a path through often conflicting objectives that somehow manages to satisfy everyone.

AMERICA'S 'GREEN' STREAK

Consumers in the '70s and '80s said they cared about the environment. In the 1990s, they're doing something about it. Recycling old newspapers and soft drink cans is increasingly de rigueur in environmentally sensitive households. As study after study confirms, consumers expect manufacturers to produce "greener" products — and are increasingly willing to vote for environmental products with the way they spend their purchasing dollars.

The environmental movement is no fluke. Research by the Hartman Group, environmental consultants based in Newport Beach, California, indicates at least half of all American consumers engage in

"environmentally desirable activities," primarily by collecting household waste for recycling.

To most, according to the Hartman Group, "environment" is a personal issue measured in terms of family or household activities. That is particularly true among the well-educated, high income, female consumers who control the biggest share of shopping dollars spent. In comparing competing products, more and more consumers consider "green" factors to be the decision tie-breaker.

"Companies are realizing this environmental movement isn't trendy," says Hartman Group President Harvey H. Hartman. "It's become a long term influence on purchase behavior."

It showed up first among relatively inexpensive and frequently purchased items. Hartman doubts that environmental considerations will ever become the primary reason to buy one vehicle over another.

Yet, Hartman says, the environment is "definitely on the list" of purchase factors for car buyers —

something that wasn't so 20 years ago. He believes that auto makers who figure out how to tell a compelling environmental story about their products will end up with an important competitive edge by the end of the decade.

Developing an environmental marketing edge won't be easy, however. Researchers say consumers are often skeptical of environmental claims about products. Vehicle makers are especially sensitive to the fact that most of the environmental improvements to their products and facilities to date have been mandated by government regulation. They know they can create a "green" marketing advantage only if they can point to consumer value beyond that gained through compliance with federal laws.

Doing so will mean examining every facet of the vehicle-making process and finding economically sound ways to integrate environmental practices. "It's a different way of doing business," declares Hartman, "and we're telling companies they must address it now."



GM's Service Technology Group envisions future dealership service operations linked by a "Local Area Network." The LAN will give repair technicians instant electronic access to service bulletins, repair manuals, and advice from the factory.



\$299/month 24-month lease at participating dealers. Tax, license, title fees and insurance extra. Mileage charge of 10 cents per mile over 30,000. GMAC must approve lease. Example based on 4-Door S-Blazer Tahoe 4x4; \$22,847 M.S.R.P. including destination charge. First month's lease payment of \$298.63, \$1260 down payment, plus \$325 refundable security deposit for a total of \$1883.63 due at lease signing (includes capitalized cost reduction). Total of monthly payments is \$7167.12. Payments may be slightly higher in AL, AR, CA, NY, TX and VA. Option to purchase at lease end for \$16,022.82. Purchase option price is fixed at lease signing and varies by model, equipment level, usage and length of lease. Lessee pays for excessive wear and use. See your participating dealer for qualification details. Chevrolet, the Chevrolet Emblem and Blazer are registered trademarks and Chevy and Tahoe are trademarks of the GM Corp. ©1993 GM Corp. All Rights Reserved. Buckle up, America!

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MEETING THE
Automotive
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LEARNING UP THE TAILPIPE

In fact, Detroit's way of doing business changed forever when the federal Clean Air Act went into effect in 1970. The law set tough emission limits for cars and trucks at a time when no one knew exactly how to achieve the standards. Since then, other requirements — notably the corporate Average Fuel Economy (AFE) requirements — have been added to help the automobile clean up its act.

As a result, today's vehicles consume far less fuel and leave behind far fewer pollutants. But that's only part of the story.

Modern cars and trucks are built in plants that consume less energy and create much less waste than automotive factories did in the 1960s. Vehicles are being designed to make

it easier to dismantle and re-claim their components. Some already use recycled metals and plastics.

The Emission Problem Defined

Before the Clean Air Act, the average passenger car spewed nearly 15 grams of incompletely burned fuel (hydrocarbons or HC) into the air with every mile traveled. Trucks were even worse.

It was little wonder. Air quality was not a concern for most Americans then. They wanted big cars with plenty of pep. And with gasoline priced around 20¢ per gallon, who cared how efficiently it was consumed?

Air pollution researchers cared. They began to document the degree to which cars and trucks contributed to air pollution. Studies

showed that levels of carbon monoxide (CO) — a byproduct of incomplete combustion — were climbing in urban areas. At the same time, researchers in California discovered that sunlight caused two other key elements in automotive exhaust — hydrocarbons and oxides of nitrogen (NOx) — to react chemically, forming smog.

Legislating Innovation

The Clean Air Act set up increasingly tough emission goals for HC, CO, and NOx emitted by any new car sold in the United States. It created somewhat less stringent limits for trucks. The standards specified reductions as high as 95% under controlled test conditions. Progress by the manufacturers would be monitored by the newly created Environmental Protection Agency.

What the law and the EPA didn't say was exactly how auto makers were to meet the new standards. Manufacturers correctly argued that no current technology existed to do so. They also predicted that inventing the necessary emission control hardware would add significantly to the cost of a new car.

It took years for auto makers to achieve the statutory limits set by the Clean Air Act. Along the way, they significantly advanced their understanding about how air and fuel combine, ignite, and combust inside auto engines.

Catalysts & Electronics

Under ideal conditions, the only byproducts of burning gasoline are



Emissions from new cars and trucks are down sharply, but the number of vehicles and the miles they are driven keeps rising.

THE 365



THE NEW ALL-SEASON CONVERTIBLE.

It's not merely a car, but an island in a sea of gridlock. Not a commute, but a sumptuous escape from the everyday. Not an ordinary convertible, but the four-season, four-person BMW 325i Convertible, the newest addition to the legendary BMW 3-Series. It's a place where rich leathers welcome you, a powerful six-cylinder engine propels you, and a triple-layer insulated top protects you when sunny skies turn to a damp gray. Because safety remains the cornerstone of BMW's philosophy, we've engineered the 325i Convertible to include du

*Traction control system can be turned off by the driver under certain conditions, i.e., deep snow, gravel or when snow-chains are used.

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THE ULTIMATE DRIVING MACHINE.®

MEETING THE

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water, carbon dioxide, and nitrogen dioxide. In fact, a host of undesirable byproducts are created, many as an auto's engine changes speed or takes on more load.

Auto makers met interim clean air standards by fine-tuning mechanical carburetors. They also slapped auxiliary air pumps on engines whose job was to inject extra air into the exhaust system, burning exhaust hydrocarbons before they could escape the tailpipe.

The tradeoff was lowered fuel economy and a sharp rise in drivability problems such as engine surging. Engineers knew they'd need more sophisticated solutions to meet the next level of Clean Air Act standards.

Enter the catalytic converter. Introduced on a mass scale in the mid-1970s by General Motors Corp., this muffler-like canister held platinum that dramatically accelerated the elimination of pollutants in the exhaust stream.

All auto makers quickly adopted two-way catalysts, so named because they attacked HC and CO emissions simultaneously. Soon engineers developed three-way converters which could reduce NOx emissions as well.

Unfortunately, three-way catalysts work well only within a narrow operating "window". It takes a hot, oxygen-rich environment to burn HC and CO. But controlling NOx requires the opposite: cooler, oxygen-poor conditions.

Carburetors couldn't maintain the right balance accurately enough.

So auto makers switched to electronic engine controls and fuel injection systems.

Today's cars use sensors to measure the oxygen content in their exhaust, feeding back the information to a computer which automatically adjusts the mixture of air and fuel entering the engine. The result is close to perfect air/fuel mixing whether you're starting your car on a cold morning, accelerating briskly onto an expressway, or cruising along for hours at 55 mph.

The Return of Power

There's a potential bonus in controlling an engine's emissions: better fuel economy. Managed properly the same process that increases combustion efficiency can also squeeze the most possible performance out of every drop of fuel burned in the engine.

It can, that is, when the engine control system is sophisticated enough. That wasn't so in the early days of automotive pollution control. Air pumps and other add-on devices worked to burn wasted fuel after it left the engine but before it exited the tailpipe.

It's a different story today. Power and performance are back. Yet even the biggest or most powerful of modern cars runs cleaner and delivers superior fuel economy. It's a case of having your cake and eating it too. The secret lies in better management of fuel usage inside the engine itself.

Federal law says modern cars and trucks must perform this minor miracle for five years or 50,000 miles with no more than routine maintenance. Future standards will require emission control systems to function twice as long without repair.



Big cars like this 1993 Buick Roadmaster average far better fuel economy than did compact cars built in the 1970s.



When you were a kid you made yourself a promise.



Maybe this is the year you make



ood on it.

So you never hit one out of Yankee Stadium, or headlined at the Garden like you planned. You can still drive a Corvette. And it's even more fun than you imagined it as a kid.

Because today's 'Vettes have 40 years' worth of Chevy engineering breakthroughs: The LT1 engine, one of the world's most advanced small-block production V8s. Dual air bags. The union of Bosch ABS brakes and ASR traction control. And no other Corvette has a cockpit quite as refined as this year's.

So, even though you've wanted a Corvette for as long as you could reach the accelerator, it's probably a good thing you waited until now. Because the 1994 Corvette is the best one yet.



Chevrolet Corvette

MEETING THE
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ALTERNATIVE POWER SOURCES

Cars don't have to be powered by conventional gasoline engines. Auto makers and other researchers have been looking at alternative power sources for decades.

There are plenty of workable options. But so far none has been able to match the high performance and relatively low operating cost of the venerable gasoline engine.

Proponents of other power sources say that isn't surprising. After all, billions of dollars have been spent over the past 90 years perfecting the piston engine. Might not other, less thoroughly refined options eventually prove superior?

Now may be the time to find

out. Experts point out that the threat of disrupted oil supplies, not to mention chronic air quality problems in many U.S. cities, make it more important than ever to find new ways to power America's cars and trucks.

Two-Strokeing the Piston Engine

Perhaps it is no surprise that one of the most interesting options to auto makers is a variation of the tried-and-true piston engine.

These days virtually every major car company is experimenting with two-stroke engines, most familiarly known to consumers as the buzzy little motor found in weed trimmers and chain saws.

The two-stroke engine gets its name from its ability to perform the

four cycles of internal combustion — intake, compression, ignition, and exhaust — in only two piston strokes, one up and one down. It takes four piston strokes for a conventional auto engine to accomplish the same task.

Two-stroke automotive engines are dramatically smaller and lighter than their four-stroke cousins. Pound for pound, they're also more powerful. Those attributes translate into the potential for a more compact engine compartment, less vehicle weight, and better fuel economy.

Controlling emissions remains a problem for two-stroke engines, however. Even so, many auto makers hint they will debut cars equipped with two-stroke engines later in this decade.



Nissan's Future Electric Vehicle (FEV) can recharge 40% of its battery capacity in only six minutes.



The Volvo Experimental Concept Car (ECC) is a hybrid powered by an electric motor, batteries, and turbine generator.

The Case for Electrics

Electric cars have been tooling around since the automobile was invented. But they've always come second to the gasoline engine's superior combination of range, acceleration, and ease of refueling. Battery technology has always been a major stumbling block.

Still, electrics offer one important feature that conventional engines don't: zero exhaust emissions. That's a compelling advantage in urban areas where smog is a persistent problem. So it's no surprise that California has mandated the use of electric cars by 1998.

Critics complain that California's action legislates a market for electrics whether the technology is attractive to buyers or not. Perhaps, but it also creates the biggest market for electrics in recent history regardless of price.

Preparing a vehicle for an electrical propulsion system is not difficult. But coming up with a powerful enough battery system is another matter. Last year Detroit's Big 3 manufacturers formed an Advanced

Battery Consortium to help clear this hurdle. One of the most promising candidates: a nickel-metal hydride battery said to provide a 300-mile range on a 15-minute charge. Auto companies are also looking into other, more exotic ways to power electrics, including high-speed flywheels hooked up to electrical generators.

No matter what the power source, though, analysts say the first crop of electrics won't come cheap. They warn that consumers can count on a price premium of at least \$5,000 or more.

Auto makers, of course, may elect to absorb most of that cost. They may have no choice. Consumer surveys show that buyers expect to pay less for an electric, not more. The main reason: Electrics lack the range and performance of a piston-powered vehicle.

Taking the Hybrid Approach

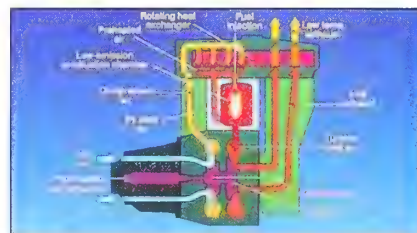
Another promising, perhaps complex, alternative for clean automotive power is one that combines some of the best features of electric

and gasoline power within the same vehicle powertrain.

Called hybrids, these cars use an electric drive system that is recharged by a small internal combustion engine. Some versions are configured so the vehicle can switch from all-electric power around town to internal combustion for greater range between cities.

General Motors, Volvo, and Volkswagen are among the auto makers who have demonstrated working hybrid vehicles recently. Domestic manufacturers are trying to convince the California Air Resources Board to permit hybrids as a more attractive alternative to all-electric vehicles in California.

Hybrid technology is complicated, requiring complex electronics to control battery power levels and shift smoothly between drive systems. The system's overall energy efficiency also falls short of simpler power sources. Still, it offers a rare compromise between super-clean electric power and the convenience of conventional gasoline power.



The Volvo ECC's turbine connects to an electricity-generating alternator.



The ECC's high-speed turbine spins at a constant 90,000 rpm.

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keep right on loving it.

They've made it the number
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Look into the 1994 Taurus,
and you'll find solid proof that

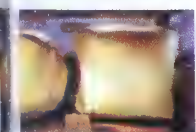
Ford knows what drivers are
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**HAVE YOU DRIVEN THE
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The 1994 Taurus is as beautiful as ever, inside and out. Its ride is smooth and quiet, its body corrosion resistant and its list of amenities even longer.



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For an added measure of safety, dual air bags** are standard and ABS available on every Taurus. And speaking of security... 994 every Ford car comes

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*Based on 1993 MYTD manufacturer's reported retail deliveries
**Driver and right front passenger supplemental restraint system
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**HAVE YOU DRIVEN
A FORD LATELY?**



GETTING THE

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FUEL ECONOMY

When fuel prices shot up during the energy crisis of 1973, America suddenly got serious about fuel economy. Consumers rushed to trade in their big land yachts for lighter and more efficient cars.

Americans eventually drifted back to their love of big, powerful cars. But before they did, the mania for small cars established a marketing beachhead for Japanese and European auto makers in the U.S. market. It also prompted a new round of federal regulation, this time aimed at forcing an across-the-board improvement in fuel economy for every new car sold in America.

Corporate Average Fuel Economy (CAFE) standards gave auto makers a series of higher and higher fuel economy averages to meet, beginning in 1975. The objective was to double average fuel economy in 10 years, reaching a level of 27.5 mpg by 1985.

"CAFE standards have doubled the fuel economy of new cars over 20 years. But fuel consumption has climbed 10% because Americans are driving more each year."

Imports surpassed that goal in 1980, primarily because most of their cars were already small and relatively fuel-efficient. Domestic auto makers won't hit the 27.5 mpg mark till this year, according to figures from the U.S. Department of Transportation.

Running To Keep Up

It hasn't been because Detroit isn't trying. Indeed, domestic cars often exceed the fuel economy of comparable foreign models.

But domestic makers sell a greater proportion of large cars, and that brings down their overall CAFE number. Some Japanese manufacturers are discovering the same problem as they add larger models to their lineup.

It's all a matter of sales mix. Each manufacturer's CAFE is determined by what it actually sells, not just what it produces. So if buyers opt for less thrifty models, a manufacturer's CAFE suffers.

Which is exactly what consumers have been doing in recent years. The in-use average for cars and light-duty trucks zoomed from about 14 mpg in 1975 to 20 mpg in 1985. But it hasn't budged since, according to the EPA.

America's lust for driving isn't helping, either. Statistics from the American Petroleum Institute show total consumption of gasoline in the U.S. has increased by about 10%—more than 10 billion gallons—since CAFE standards were implemented in 1975. The reason: We drive 3% further each year.

The Arithmetic of CAFE

Under CAFE rules, a manufacturer can sell high-mileage cars to offset demand for its less fuel-efficient models. But the relationship isn't simple as it sounds.

Most of us think of fuel economy in terms of miles per gallon. The two cars have a combined average fuel economy of 25 mpg if one gets 20 mpg and the other gets 30 mpg.

CAFE looks at fuel consumption from the opposite direction. Since



Ford's experiments with new materials for cars includes this auto body made entirely of light-weight aluminum.



The fully-equipped Ford SYNTHESIS-2010 family sedan weighs only 2,200 pounds and is 98% recyclable.

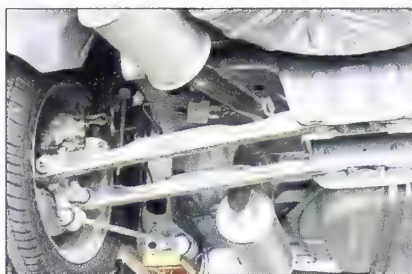
purpose is to track fuel consumption, not fuel economy, CAFE measures gallons per mile instead of miles per gallon. Result: The CAFE standard for a 20 mpg and 30 mpg car fleet is set to 23 mpg. Auto makers must build more high-mileage cars than they'd expect to balance the sale of a low-mileage car.

The CAFE standards have helped stabilize the average fuel economy of new cars over pre-CAFE levels. For example: A 1994 Lincoln Town Car offers better fuel economy than did Ford's most fuel-efficient model, the Pinto, 15 years ago.

Adding Up the Results

Stabilizing the average new-car fuel economy is admirable. But it doesn't mean America is saving gasoline.

The opposite is true. Statistics show that U.S. consumers are burn-



SYNTHESIS-2010 has an all-aluminum suspension system.

ing up more gasoline than ever. Blame it on a growing number of cars on the road, plus an average 3% more miles driven each year.

The problem is exacerbated by the fact that light-duty trucks — whose CAFE is just over 20 mpg — now account for nearly 40% of all vehicle sales in the United States.

Besides, consumers are not nearly as crazed about fuel economy as they were in the midst of the last

two energy crises. Of course, even the largest and most powerful new car is a paragon of efficiency compared to the gas hogs of the 1960s. But experts calculate we could slash the country's annual fuel consumption by as much as 50% if we all climbed into the most fuel-efficient cars currently available.

Diet Cars

Building automotive powerplants to work more efficiently isn't the only way to boost fuel economy. Over the past 20 years American car makers have made dramatic strides in design and materials that save fuel by reducing vehicle weight.

Today's cars are roughly 1,500 pounds lighter on average than models built 20 years ago.

According to the National Academy of Sciences, a 10% reduc-



tion in a vehicle's weight can boost fuel economy by 3%-5%. Besides, a lighter car requires less power to move, so its engine can be smaller and less polluting.

Aluminum is one of the most attractive alternatives to steel. Aluminum engine blocks and cylinders are increasingly common. Soon, aluminum bodies may be just as commonplace.

If so, Ford may lead the way. It is the auto industry's most vocal proponent of aluminum, using 16 million tons of the metal per year in body panels alone. Ford's Mark VIII uses almost 500 pounds of aluminum.

These days Ford is testing a fleet of 20 Mercury Sables with all-aluminum bodies that weigh 400 pounds less than conventional Sables. It's also evaluating a much more radical all-aluminum car called Synthesis-2010. The vehicle is 98% recyclable and weighs 46% less than a comparable steel-bodied car. Among its innovations are special

"Success of efforts to develop new fuel and gasoline blends that help cut exhaust pollution hinge on price and performance factors needed to win consumer support."

adhesives in place of welds, and a three cylinder two-stroke engine.

Reinventing Gasoline

It's been primarily up to auto makers to figure out how to reduce the emissions from their vehicles. Gasoline producers removed the lead from their fuels two decades ago to suit the introduction of catalytic converters. But their role in emission control has been minimal so far.

No more. Refiners are expected to spend some \$15 billion through the remainder of the decade to produce more environmentally friendly gasoline.

Many are doing so now. Amoco, for one, uses an extra refining process to remove PNAs — short for polynuclear aromatics — from its unleaded premium gas. Independent tests by an oil/auto industry consortium say the result is 13% lower tailpipe emissions from cars who use the fuel. Refiners have also been gradually

reducing the volatility of their gasoline since 1989. Lowering volatility — a measure of how easily gasoline evaporates — reduces the chance of gasoline fumes escaping into the air when a car sits for several days in the summer sun.

Some areas of the country are also getting gasoline blends that contain "oxygenates" such as ethanol. By 1995 refiners must begin distributing "reformulated gasoline" across the nation. The new blend will feature another reduction in volatility, lower sulfur, benzene, and aromatic content; plus about 6% oxygenates.

Jerrold L. Levine, director of corporate studies at Amoco, agrees the new blends will make cars run cleaner. But there'll be a cost penalty for consumers. He estimates the addition of alcohol oxygenates will reduce fuel economy up to 3% and add about 4¢ per gallon to the manufacturing cost of gasoline.

Seeking Other Fuels

Auto engines can be modified to run on almost any fuel, from perfume to peanut oil. But finding a practical alternative to gasoline isn't easy.

Alcohol fuels are the most likely substitute. Widely used in such countries as Brazil, they are appealing in the United States because they can be made from such plentiful local ingredients as coal and



Amoco removes PNAs from its premium gasoline to help reduce tailpipe emissions by 13%.

GRAND

Its interior stirs a passion for driving well served by an eager V6, agile sport suspension,
the safety of driver and passenger airbags and available anti-lock brakes.

PRIX

The new Grand Prix™ Sport Sedan. Purposefully designed,
superbly equipped. A high-quality boost to 4-door driving excitement.

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MEETING THE

Automotive Environmental Challenge



farming byproducts. Alcohol fuel is also relatively clean-burning.

There are drawbacks, however. The primary one: Alcohol fuels have less energy content than does gasoline. That means lower mileage and less range per tankful. Alcohol fuels can also be tougher to ignite in cold weather. Marketers have spared consumers such problems by offering blends containing 10% alcohol and 90% gasoline.

Auto makers continue to dabble in more exotic fuels. A perennial favorite is hydrogen. Under ideal combustion conditions, hydrogen combines with oxygen to produce nothing but water. Like other alternative fuels, though, hydrogen can't match the energy punch of gasoline. And storing such an explosive gas presents plenty of technological

challenges. The trick is making enough of a new fuel, and getting it distributed to everyone. Nobody is eager to take on that expensive task unless gasoline prices multiply high enough to make the chance worth the effort.

"Not much will happen as long as oil stays at \$18 to \$20 per barrel," concedes Jeffrey Alson, an EPA alternative fuel expert. Switching America to another fuel, he suggests, will ultimately be a political, not an engineering, issue.

The process got a big boost with the 1990 amendments to the Clean Air Act. They included the requirement that fleets in 22 urban regions begin operating "clean fuel vehicles," or CFVs. The regulations say 30% of fleet purchases in these cities be CFVs — vehicles using

such fuels as methanol or natural gas — by 1998. The ratio jumps to 70% in 1999 and 70% by 2001.

The U.S. Department of Energy is trying to build grassroots support for CFVs with the voluntary "Clean Cities" program it launched in September. The objective is to encourage local communities to build market demand for alternative fuel vehicles.

Tuning Up For Cleaner Air

Modern cars are built to run long between tune-ups. Many, in fact, adjust their engines automatically to help keep emissions low and fuel economy high. Still, even the most sophisticated new car or truck needs a tune-up from time to time.



This dual-fuel Buick LeSabre can burn gasoline or propane at the flick of a switch. Inset: The 3.8-liter V-6 engine has been modified with a propane carburetor.



Proper engine tuneups, even for new cars can slash exhaust emissions as much as 94%.

Researchers note that about half of all automotive air pollution comes from only 10% of the cars on the road. An emission study conducted in Michigan earlier this year proves the point.

Preliminary results of tests on 7,000 vehicles found just 6% were responsible for half the test group's CO emissions. Likewise, 7% of the vehicles tested generated half the group's HC pollution.

Fuel-Saving Tires

Some flexing, or bending, is inevitable where the tire meets the road. The energy consumed is called rolling resistance.

The challenge for tire makers is to reduce heat build up without sacrificing road grip. Improving rolling resistance is important: At 50 mph, it accounts for roughly 40% of the energy required to keep a car moving along.

William E. Egan, chief engineer of tire design at Goodyear Tire & Rubber Co. in Akron says Goodyear has trimmed rolling resistance 2% in its passenger tires since

1980 alone. The company says a 7% reduction in the rolling resistance of a passenger tire equals 1% better fuel economy. Goodyear is also showing off a new tire concept called Momentum that reduces rolling resistance another 40% without

affecting traction. The tire, designed especially for electric cars, features an unusually flexible tread and high pressure (50 lbs. per square inch versus 35 lbs. per square inch) inflation.

AUTO RECLAMATION

Recycling cars is big business. About 94% of the nation's vehicles end up at dismantling facilities. Some 75% of a reclaimed vehicle's weight — most of it iron and steel — is then reclaimed. "The automobile," says Susan Day, vehicle recycling coordinator at Ford, "is already the most recycled durable good today."

Car companies are beginning to see recycling efforts as important to their ability to compete. "You're going to have some waste in any manufacturing process," notes Dennis R. Minano, vice president of GM's Environmental and Energy Staff. "Whenever you can use that waste, you're lowering the cost of operating your facility."

"Without the proper technology, you can't recycle at all," adds John

M. Ogden, a GM recycling expert looking for ways to make recycling pay. "And if the economics aren't there, it won't happen anyway."

Using Old Tires

Every year Americans discard the equivalent of 350 million passenger tires. Another 2 billion scrapped tires already piled up around the country. What to do?

Tire makers say the best solution is to "recover" the energy content of old tires by burning them in high-temperature cement kilns. About 130 million tires — 45% of all scrap tires — are being recycled now. Nearly two-thirds are being used as fuel.

"When you get right down to it, just about the whole tire is a fuel product," says Andrew L. Eastman, manager of facilities engineering at Goodyear. "It was fuel to start with, and we're returning to its original form."



Goodyear's Momentum tire cuts rolling resistance without affecting traction.

4 YEARS AGO WE PROMISED BLUE SKIES.

IT WASN'T A BLUE SKY PROMISE.

When ARCO introduced the world's first emission control gasolines in 1989, the world was probably skeptical about our promise of cleaner air over Southern California.

The terms "clean burning" and "gasoline" hardly seemed compatible. They are today. Measurably so.

In the past 4 years, people driving with ARCO's EC-Regular or EC-Premium gasolines have prevented over 400 million pounds of automotive pollution from reaching our Southern California skies.

ARCO's emission control gasolines have been favorably recognized by the South Coast Air Quality Management District. Emission control gasolines are one reason that the air in Southern California is the cleanest it's been in 5 years.

And ARCO has already developed a clean fuel technology for tomorrow, our



advanced emission control formula, EC-X.

The EC-X formula gave California's Air Resources Board an example for its strict reformulated gasoline standards.

When the standards take effect in 1996, all California drivers can use clean burning, reformulated gasolines that will reduce automotive pollution in our state by 3.8 million pounds a day, or over a billion pounds a year, compared to current emissions.

Emission control gasolines will help achieve bluer skies more quickly and more economically than other alternative fuels yet considered. More practically, as well, since we won't have to change the cars we drive or the way we drive them.

ARCO emission control gasolines. The technology for cleaner air today. And even cleaner air tomorrow.

ARCO 
CLEAN FUELS FOR THE FUTURE.

MEETING THE
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WHAT ABOUT CFCs?

cars and trucks have been major sources of chlorofluorocarbons, the refrigerant used in air conditioners that attacks the Earth's ozone layer. The United States has joined other countries in signing the Montreal Protocol which pledges a

because it attempts to dictate what consumers will be able to buy.

"As long as we have dollar-a-gallon gasoline, it will be very difficult to significantly change the way people use their automobiles," says Helen O. Petruskas, vice president of Environmental and Safety Engineering at Ford Motor Co. She

predicts "very, very serious consequences" where regulations require cars that people don't want.

More to the point, gasoline-powered cars are extremely clean now. In EPA certification tests they control more than 95% of

their pollutants. Revisions in the Clean Air Act will push that level to about 98%. "There just isn't much there to be gained," suggests Gordon Allardyce, manager of regulatory planning at Chrysler Corp. "You pay a very high price for each additional fraction of improvement."

Cost Considerations

Americans already pay plenty to have their new cars meet various federal standards — some \$3,000 per vehicle, according to research by the Automotive Consulting Group in Ann Arbor, Mich. ACG estimates the recent changes to the Clean Air

"About 75% of a scrapped car is recycled, making it the most recycled durable good today. By comparison, Americans recycle 61% of aluminum cans."

Act will tack on another \$1,500 in cost to meet future emission and fuel economy standards. Meeting California's "low emission vehicle" requirements will cost even more.

Dennis Virag, ACG's managing director, believes ultra-clean standards such as those in California will produce only "minuscule" differences in pollution levels compared to cars meeting the latest federal standards.

"We're running out of money," adds David E. Cole, director of the Office for the Study of Automotive Transportation at the University of Michigan. He says California is sizing up as an important test case of the economic impact of severe environmental demands.

Cole believes better economic analysis must be applied to proposed environmental regulations. "We cannot afford to be dumb about these issues," he says. "We have to tackle the problems that will give us the best return on investment."

William J. Hampton is a Detroit-based journalist who has written about cars and the environment for 23 years.



Recycling turns old soft drink bottles into new car parts.

complete phase-out of CFC refrigerant, known as R-12, by the beginning of 1996.

Auto makers are racing to beat the deadline. Indeed, about 90% of 1994 model cars and trucks sold in the United States will use a non-CFC refrigerant called R-134A.

THE ROLE OF REGULATION

Regulators know the fastest way to effect change is to require it. But when does the cost of change outweigh its benefits to society?

The answer may come first in California. Critics predict that the state's tough approach may falter

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Developments to Watch

ED BY RUTH COXETER

PERSONAL LIGHTNING ROD— AND A STYLISH ACCESSORY



Ezzat G. Bakhoun won't get his face on the \$100 bill. But he has one-upped Benjamin Franklin another way—by patenting one of the biggest improvements in lightning rods since Franklin invented them. Bakhoun, president of ESD Research Inc. in Durham, N.C., says a small version of his device could be worn on the wrist to drain

ges into the air. That way, static electricity on factory sers wouldn't damage the electronic parts they're making. akhoum separates the tip and base of his rod with a ator, a charge-storing device consisting of two metal plates rated by an insulator. As static electricity builds, positive ges flow out of the rod onto the nearest capacitor plate. ousm says the wrist-worn device should make factory sers more mobile because they won't have to be wired to ound. He stumbled on the concept when he accidentally d a capacitor into a discharge rod during an experiment.

LABOARD FOR G-BOMB FLIGHT 106'

nmanned charter flights of bugs and bacteria may soon be coming to fields of lettuce, corn, and melons near you. ard Frey, president of Arizona Biological Control Inc. in on, has been in the beneficial-bug business for 17 years, lying farmers with insects and bacteria that control pests. kking a 50-acre field can take up to eight hours by hand. rey has designed bright red remote-control airplanes to do work in 10 minutes. With a five-foot wingspan, these es turn on a dime and fly slowly enough to safely deliver e than two pounds of delicate insect eggs and bacteria. s the plane circles a field at 35 mph, the operator pulls a ch and—bombs away—the bugs drift out of the release Farmers who use the air raids take weekly pest readings: insects to be effective against pests, you have to apply at the first sign of a problem,” says Frey. The miniature planes can also be used for targeted chemical delivery—pproach to crop-dusting that uses less pesticide. Frey chemical companies are interested in his planes, which he ed selling in April for about \$2,000 each.

BETES DETECTION: EYES HAVE IT

es have been called a window on the soul. To SpectRx e. in Norcross, Ga., they're a mirror for quickly and essly detecting diabetes and monitoring treatments for place of the standard blood test that measures a p's glucose level. In the U.S. alone, 13 million people have eise, with half of those cases going undetected. Using nputerized measuring system, SpectRx focuses a low-blue light on the lens of the eye to read a patient's av-

erage blood-glucose level in 30 seconds. Excess sugar affects the composition of the lens proteins, causing them to emit two to three times as much light as usual. The extra sugar exists because a diabetic doesn't produce enough insulin, a hormone that converts sugars and starches into energy.

The SpectRx system is being tested in a six-month trial of 300 newly diagnosed diabetics at Emory University in Atlanta and at the University of Missouri in Columbia. Assuming that it gets Food & Drug Administration approval, the device will be on the market in early 1995. SpectRx says it expects to sign an agreement with an unnamed drug company to sell the \$2,000 to \$4,000 system for screening and plans to market it directly for monitoring the treatment of diabetics.

DISAPPEARING CLIPS THAT MAKE GALL-BLADDER SURGERY SAFER

In laparoscopic removal of the gallbladder, a surgeon inserts a tiny video camera and operating tools through an inch-wide incision near the navel. A short hospital stay, quicker return to work, and minimal scarring have made this approach popular. But if the metal clips that are used to seal ducts and arteries become dislodged during or soon after surgery, heavy bleeding or bile leakage may result. And since metal clips don't dissolve, they can distort X-rays and MRI and CAT scans later on.

Davis & Geck International, a division of American Cyanamid, has designed a polymer clip that grips twice as tightly as metal, then is absorbed by the body. The polymer clip might also be used in hysterectomies and hernia repair, where blood vessels need to be tightly closed. Unlike the applicator used for metal clips, Davis & Geck's can be sterilized and reused, cutting down on costs and medical waste. The FDA has just approved commercial sale of the Lapro-Clip Ligating Clip, which G. Martin Wynkoop, Davis & Geck's product manager, estimates is 30% less expensive to use than metal clips.

NOW APPEARING AT AN OCEAN NEAR YOU: 'SINGING' RAINDROPS

Measuring rainfall over the ocean has been impossible—until now. The U.S. Navy is sponsoring research by physicist Herman Medwin of Naval Postgraduate School in Monterey, Calif., and oceanographer Jeffrey Nystuen of the National Atmospheric & Oceanic Administration on a method using underwater microphones. When rain hits water, microscopic bubbles are trapped below the surface. For a split second, they vibrate, or “sing.” Large bubbles formed by the heavy splats of a thunderstorm have low voices, while small bubbles from delicate drizzle sing at a higher pitch. A computer translates the sounds into rainfall estimates.

In the Gulf of Mexico, Nystuen detected rainfall as accurately as a coastal rain gauge. Over the next five years, he hopes to compile enough data to prove that the method works. Rainfall distribution is an indicator of heat exchange between ocean and atmosphere, so better measures should improve weather forecasts—and make sailing smoother for Navy ships.



Human Electronics—Technology for the Benefit of Mankind:



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Unfortunately, a hole in the ozone layer may be coming to a town near you.

Dangerous rays from outer space are invading the earth. Holes in the ozone layer allow dangerous rays to slip through the earth's protective shell. These rays have been linked to many potential environmental and health hazards. And if you think these holes are just over the South Pole, you're wrong. They may be forming right over your head.

That's why Matsushita has developed a sophisticated ozone sensor, called the Improved Limb Atmospheric Spectrometer (ILAS), proposed and requisitioned by the Japan Environment Agency. It will yield extremely precise data, because it's the first satellite-mounted sensor that can simultaneously measure concentration, temperature and pressure in the ozone layer. It's also the first sensor with a thermal detector that does not require a cooling system. The Matsushita Ozone Sensor will be mounted on the Advanced Earth Observing Satellite to be launched by the National Space Development Agency of Japan.

Matsushita is hard at work phasing out the use of CFCs from manufacturing processes. And when the sensor begins its work, it will help identify other hazards to the ozone layer. At Matsushita, we're not only concerned about our products, we're concerned about our planet.

COMPUTERS ARE FINALLY LEARNING TO LISTEN

Some experimental machines can follow complex vocal orders, but they are still slow and very costly

When Victor W. Zue speaks, his computer listens. And lately, the Massachusetts Institute of Technology researcher has been more and more demanding, asking the machine to buy plane tickets and provide street directions. When Zue commands: "Show me the Chinese restaurant nearest MIT," his computer calls up a city street map and sketches a route in blue between his office and Royal East on Main Street.

That's a leap from what's now available on the market—and a preview of what may lie ahead. Many of today's commercial speech-recognition systems, such as one from Dragon Systems Inc. in Newton, Mass., serve as nothing more than elaborate voice typewriters,

sentatives out of work. In one way or another, says Zue, speech-understanding systems "will touch hundreds of millions of people."

So real is the potential that American Telephone & Telegraph Co. recently augmented its own work by licensing speech technology from Belgium-based Lernout & Hauspie Speech Products that operates in French, German, and other languages. The systems are essential for people who don't have touch-tone phone service, meaning that the request "press 1 for more options" doesn't apply. While 80% of U.S. households have touch-tone service, the proportion is as low as 25% to 35% in countries such as Italy and Belgium. Says Jim Craig, data networking director at

grammar derived from the hems, haws and sentence fragments of actual speech. The new systems don't understand everything they're told. But they can take the right action based on a partial understanding—and can even ask questions to clarify something. Since MIT researchers have been linked by voice with American Airlines' Eas Sabre reservation system to purchase travel tickets (table). One prototype at Carnegie Mellon University even works through mortgage-interest calculations with a live customer.

"WORD SPOTTING." That's quite an advance from the frankly stupid speech systems of only a few years ago. Those required speakers to pronounce words perfectly

A COMPUTER THAT HEARS—AND UNDERSTANDS

Researchers are building computer systems that decipher speech. Here's how one system at MIT handles an airline reservation:

1. ANALYSIS

Sound waves are converted into a string of phonemes, the smallest units of speech, such as the "f" sound in "flights."

2. RECOGNITION

The phonemes are assembled into possible words. The system ranks the acoustic fit of stored sounds—"flights leave" vs. "fly sleeve"—to determine the best choice.

3. UNDERSTANDING

The system sifts through words, trying to find the right ones to fill in a reservation form, which has blanks for departure city, departure date, and destination.

4. CONTEXT

The computer uses information already gathered to help understand subsequent sentences. It knows that "How about next day?" is a question about Nov. 27 departure

"WHICH FLIGHTS LEAVE BOSTON FOR L.A. ON NOVEMBER 26TH?"

changing spoken words into printed ones. Others can respond to preset commands, such as "open file," but even those have no grasp of semantics.

Zue and other researchers are out to prove that speech systems have a higher calling—that they aren't limited to taking dictation but can "understand" and act on spoken words as well. Machines that do that could be a godsend to technophobes, who could simply ask for what they wanted—say, 100 shares of Chrysler Corp.—without fussing with computer keyboards, phone push buttons, and the like. On the other hand, such sophisticated systems could put a lot of clerks and customer-service repre-

AT&T Network Systems: "Speech-recognition technology will be required on a lot of information services happening globally."

If the new systems do span the globe, much of the credit will go to the pairing of speech recognition with a branch of artificial intelligence (AI) that fell from favor nearly a decade ago. The field, natural language processing, was intended to enable computers to be programmed in English instead of arcane computer languages. But research faded in the mid-1980s because of disappointing results. Early attempts to adapt AI stumbled because human speech was simply too ungrammatical for the computer to follow.

The answer was to abandon the Queen's English and create a real-world

and to leave spaces between them. These first-generation systems analyze sounds to identify each word and applied statistics to uncover the most likely two- or three-word combinations. The closest they came to speech understanding was so-called "word spotting," which is the ability to pluck a word or phrase out of a sentence and act on it. That's the concept behind Microsoft's Soul System. Similarly, researchers at Japan's Nippon Telegraph & Telephone Corp. have begun using speech recognition to give bank-account balances.

In the drive to make computers understand, not just recognize, one hot research area is systems that grab and retain bits of speech to solicit even more pieces. Like a resourceful tourist who understands just enough English to c-

"HOW ABOUT THE NEXT DAY?"

uce a sentence from a few words, MIT's system rephrases questions to verify its word selections and seek more details from the speaker. The idea is to use new conversation to arrive at a better understanding of what was said earlier.

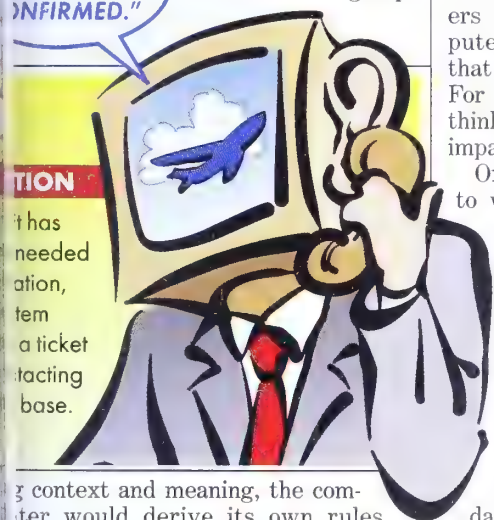
A side benefit of such dialogue is that humans forgive the errors that inevitably occur. Instead of walking away frustrated, people typically respond to such systems as they would to a child's struggle with language. "If you can get the machine to understand even pieces, as long as you're maintaining a dialogue that's moving forward, the human will stick with it," says Lawrence R. Rabiner, a prominent speech researcher at AT&T Bell Laboratories in Murray Hill, N. J.

The next frontier is to get systems to learn on the job. Researchers at Bolt Beranek & Newman, MIT, and IBM are making their systems to automatically build a reservoir of understanding from the way people ordinarily speak.

Instead of having scientists write the rules for grasping

"YOUR FLIGHT IS UNCONFIRMED."

It has needed attention, from a ticket factoring base.



g context and meaning, the computer would derive its own rules from the relationships it finds in record-speech.

These systems could adapt to the dynamics of language, says researcher Adele Bates at BBN in Cambridge, Mass. For instance, they could add a new definition of "bad" once they realize that the word has become slang for cool hip. "We have to have spontaneous learning systems because language can always surprise us," says Frederick Jelinek, a former manager of IBM's continuous speech recognition research.

One approach being pursued by IBM is other uses statistical probability to determine the correct meaning. It's already used in recognizing words. For instance, these systems give higher

probability to combinations such as "icy cold" than unlikely ones such as "I is cold." Now, researchers are betting such systems can detect the most appropriate of several meanings for the same phrase. For instance, a travel reservation model that contains the phrase "morning flight" might give a higher probability to the meaning "leave before noon," than "arrive before noon."

One of the scientists' tricks has been to use sentence-charting techniques as a way to derive and maintain a likely context. Charting the sentence "The boy has left," and storing "the boy" as a noun phrase, allows the computer to identify the subject of a subsequent sentence that begins "He" as the boy. Such techniques enable computers "to hang on to specific phrases, then patch them together to figure out meaningful phrases," says Raj Reddy, dean of Carnegie Mellon's School of Computer Science.

TIMING. Another effort at SRI International attempts to use sound pitch, loudness, and timing, as punctuation is used in text, to help set context. SRI researchers hope the technique can help computers grasp the intent of sentences that now are confusing to computers: For instance, does the sentence "I don't think I know" express befuddlement or impatience?

Of course, getting these new systems to work in the home or office under normal conditions will require vast performance improvements—and cheaper computers. Lab versions now use \$100,000 workstations and sophisticated microphones, not home PCs or telephones. Software developer Bolt Beranek's system runs on a workstation with 96 megabytes of memory—24 times that of a good office PC.

Despite their enormous power, today's experimental systems must still be limited to a single subject area, so as not to overwhelm them with choices. That's a problem if, say, a person asking about flights to L. A. suddenly wants to know the weather there. MIT researchers delight in crashing their direction-finding system, which knows streets and buildings, by asking it: "Where's my dog?"

Those problems should gradually diminish as cheaper computing power gives the systems extra brainpower and AI allows them to increase their word-power as they work. Speech understanding could be just the ticket to ride the information highway without putting your hands on a computer.

By Gary McWilliams in Cambridge, Mass.

**LAB VERSIONS
USE \$100,000
WORKSTATIONS
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WALL STREET'S GLOBAL POWER

U.S. FIRMS ARE THE DEALMAKING CHAMPS—BUT RESENTMENT IS BUILDING

On June 28, 1993, Carlos Menem, the President of Argentina, was in Washington for a state dinner with President Clinton. But for Menem, the real celebration didn't start until later that evening at a party he threw for American executives, congressional representatives, and diplomats. The guests of honor were investment bankers from Merrill Lynch & Co. and CS

First Boston Inc. The two Wall Street firms that day had successfully marketed the largest stock sale in Latin America, a \$3 billion equity offering for YPF, the huge Argentine state-owned oil company, and had ended up selling even more shares than had been expected.

It's lucky for Menem the deal was a hit. His political future was riding on YPF. The deal is expected to pave the way for many other Argentine companies

HOT SPOTS
Czech Republic Raising capital—and a few glasses.....page 104
China A Wild West in the East, with high risk and return.....page 106
Mexico From the brink of default to a bonanza of deals.....page 108

GOLDMAN SACHS
 Why it may climb to the top of global investment banking.....page 110

STOCK EXCHANGES
 Americans are babysitting the world's new bourses.....page 112

to raise capital from international investors. "This was the acid test. It put the administration on the line" to prove they could do the deal, says Winthrop H. Smith, executive vice-president at Merrill Lynch.

MIDWIVES. Argentina isn't the only case where U.S. institutions have served as midwives to free-market reform. From Mexico to Thailand to China, American investment banks are playing pivotal roles in megadeals, earning the U.S. firms a preeminent position in the financial markets of emerging countries. To get the business, they are elbowing aside European, Japanese, and local firms. On the YPF offering, Merrill Lynch and CS First Boston took a chunk of



HOW U.S. INVESTMENT BANKS ARE

GERMANY

Deutsche Bank dominates, but U.S. firms are gaining, mainly because German firms covet access to U.S. markets.

► Goldman Sachs was lead underwriter for Daimler Benz stock issue. In Oct., 1993, Daimler became first German company to list on the NYSE.

CHINA

Despite years of wooing by Japanese firms, Chinese companies have given U.S. firms the lead in accessing world capital markets.

► In 1993, Merrill Lynch, Morgan Stanley, and Bear Stearns brought three Chinese companies to world equity markets.

ITALY

U.S. firms beat Italian and French firms for plum mandates.

► In Sept., 1993, Morgan, Goldman Sachs, and Lehman Brothers won roles as advisers and underwriters to Credito Italiano and Banca Commerciale Italiana, two of Italy's largest banks.

e \$120 million in underwriting fees. U.S. investment banks are cleaning up in the developed world as well. In London and Tokyo, they have muscled their way in to become major competitors to local institutions. Recently, they've snagged complex, high-profile corporate and government privatization assignments in Italy and Germany, despite intense competition from local and other non-U.S. financial institutions. Whether it is privatizing, underwriting equity for corporations, trading securities, inventing complex derivatives, or vying on mergers and acquisitions, U.S. firms are in the vanguard. "Clearly, U.S. securities firms are the world's leading investment bankers. Here's a place where we have a real competitive

edge," says analyst Guy Moszkowski of Sanford C. Bernstein & Co.

It's far from clear, though, that American investment banks can maintain that edge. They have achieved it by capitalizing on the spread of free enterprise and through their domination of the U.S. capital markets, which dwarf foreign markets. But some observers predict a backlash against the Americans, whose sharp elbows have often angered indigenous firms. Some foreign officials claim the Americans aggressively push into foreign markets, yet make it hard for foreigners to enter the U.S.

Whatever the case, there's no doubt that for now, U.S. firms are riding high. One objective measure is underwriting rankings. For the first six months of

1993, seven of the top 10 underwriters of international equity issues were U.S. investment banks, says the magazine *Euromoney*. And in 1993's first three quarters, U.S. investment banks held the top three rankings for \$366 billion in international debt offerings that included Eurobonds but not issues by U.S. and foreign companies in their home markets, says Securities Data Corp.

American firms excel by more subjective measures as well. "U.S. investment banks are always at the forefront of new products, new ideas, and financial research and development. So they're at a great advantage to roll out ideas to foreign markets," says Jean-Louis Lelogeais, a New York-based partner at Booz Allen & Hamilton Inc.

Although U.S. investment banks have been active overseas for decades, their global reach is relatively recent. Even during the late 1980s, most observers felt that powerful firms such as Nomura, Deutsche Bank, and Union Bank of Switzerland would be the leaders and that perhaps only one or two American securities firms would join the global investment banking elite.

Now, the U.S. has a bevy of major players that span the globe and can compete with virtually any overseas rival for global assignments. The leaders include Goldman Sachs, Merrill Lynch, Morgan Stanley, Salomon Brothers, and Lehman Brothers. CS First Boston has a Swiss parent, Cr dit Suisse, and deep roots in London, but it is run by American management. Also in the top tier is J.P. Morgan & Co., a commercial bank that has transformed itself into an investment bank. And in some arenas, such as Latin America, Eurobond issues, and trading less-developed-country debt, such U.S. commercial banks as Citibank, Bankers Trust, Chemical, Chase Manhattan, and investment bank Bear Stearns are leaders.

KEY RESOURCES. The investment banks have been very enterprising in pushing overseas. Starting in the mid-1980s, they began opening offices in key countries, paying for local talent that had knowledge of those markets—including former government officials—and cozying up to the most powerful CEOs and government leaders. They built large operations, especially in London and Tokyo. For example, out of 7,800 employees worldwide, Morgan Stanley & Co. has 1,550 employees in London and 730 in Tokyo. The biggest U.S. investment banks became important players in the British and Japanese stock, bond, and derivatives markets. Salomon Brothers Inc. is one of the largest traders of gilts, or British government bonds, in London. "The U.S. firms are a bigger force in London and Tokyo than British and Japanese firms are in the U.S.," says Mor-



DRIVING IN OTHER COUNTRIES

ARGENTINA

Firms are playing a key role in opening up Argentine market to investors. In June 1993, CS First Boston and Merrill Lynch underwrote a \$3 billion stock offering for the state-owned oil company.

MEXICO

In trading, underwriting, and M&A activity, U.S. firms have gained leadership positions.

► In May 1993, J.P. Morgan underwrote a \$1 billion Eurobond offering for Cemex after advising the company on Spanish acquisitions and co-managing an equity offering.

CZECH REPUBLIC

U.S. firms are assisting government's privatization program.

► In June, 1993, Bankers Trust advised the Czech bank handling an offering for power company CEZ in what was the country's largest corporate public bond issue.

DATA BUSINESS WEEK

gan Stanley Chairman Richard B. Fisher.

One reason is that U.S. firms have more resources to commit to overseas expansion. For the past three years, they've enjoyed record profits, while European and Japanese firms have been hobbled by lagging economies and unable to spend much on expansion.

U.S. institutions' efforts really began to pay off with the fall of communism. Country after country is striving to create free markets and encourage private enterprise, a game nobody knows better than Wall Street. This is giving easy entrée to U.S. firms that were once relegated to the sidelines.

Perhaps more fundamental to U.S. firms' success, though, is their home-court advantage. The U.S. capital markets have always been immense, but to-

day they dwarf overseas markets as never before. The well-developed U.S. pension and mutual-fund system constitutes the biggest pool of money in the world. No major international deal can get launched without substantial U.S. investor participation. American firms have leveraged their position to service the growing desire of U.S. institutional investors to buy foreign stocks. "The banks with global placement capacity are all on Wall Street. Everyone else is a bit player by comparison," says Gregory Hsu, a former executive with Morgan Grenfell Asia Ltd.

FIGHTING BACK. The foreign firms' Achilles' heel is their inability to break into the U.S. market. "You cannot be a true global competitor without being effective in the U.S. market," says Mor-

gan's Fisher. A handful of foreign firms have had some success in the U.S., yet they are still considered niche players.

Executives at overseas institutions complain that the largest U.S. firms maintain their global grip by acting as kind of cartel to keep foreign competitors out of the U.S. market. First, they secure lead roles in big global offerings, such as privatizations by arguing that only they have the muscle to sell securities in the U.S. Then, as lead managers in the U.S. syndicate system, they control allocation of shares in the U.S. market. That allows them to retain the bulk of the selling commissions, for most investors give their orders and commissions to the lead managers in order to receive a decent allocation of the shares. Foreign firms and smaller U.S. firms

NOT SPOTS: Czech Republic

RAISING CAPITAL—AND A FEW GLASSES

It's no fun being the junior member of a Salomon Brothers Inc. team vying to clinch a deal over dinner in Prague. That person becomes "designated drinker" for the inevitable rounds of toasting. When one such banker couldn't sneak enough mineral water into his glass while entertaining the managers of a Slovakian chemical company, he won Solly the right to lead the privatization only after painfully slogging through his presentation the next morning.

Investment banking in the Czech Republic capital still teeters a bit on the wild side. Two nascent bourses battle for business, with many investors ignoring both by swapping shares privately. Even basic company information is often shrouded as privileged. But the privatization of 1,500 companies last year, and of an additional 770 starting this month, has had global dealmakers jostling for business. "The market is small but very competitive," says Alex Seippel, head of the Prague office for Bankers Trust Co. "It's an exciting time to be here."

The Czech Republic's shift to private enterprise made Prague a magnet. It distributed vouchers to citizens that could be transferred to shares in the companies, which then turned to investment bankers for advice on capitalist management. As the second wave of privatization begins, bankers are salivating over the telecommunications monopoly.

U.S. firms seemed poised to get the edge on deals. Local commercial banks are active, but CS First Boston Inc. Executive Director Charles Harman says: "They have no expertise in big M&A deals, big privatizations. They need Western technical expertise." And business in Prague is shifting from an

advisory role to the type of work in which the Americans often elbow out their European and Japanese peers—raising capital on international markets for newly privatized companies. William Browder, London-based co-head for Central and Eastern Europe at Salomon Brothers, says that Czech companies are already exploring international equity offerings.

In domestic debt offerings, as well as equity sales and trading, CS First Boston leads the pack. As the only foreign house with a Prague Stock Exchange seat, it handled over half of the \$25 million volume on a recent Tuesday, the only trading day in the week. The firm managed the first Czech fixed- and floating-rate debt offerings for glassmaker Glavunion, among others. And it is preparing to launch the first foreign-managed investment fund in Prague. "There's been an explosion of activity," says Andrew Reicher, who runs the 17-person Prague office with Czech-born American Zdenek Bakala.

Bankers Trust also has a good field position. Alex Seippel has a dozen privatizations to his credit. The bank advised the Czech bank that issued the country's largest corporate public bond issue for CEZ, the monopoly power company. The offering was worth 2.1 billion koruna (\$72.2 million). Some Bankers officials snared the deal partly by singing Beatles songs in a karaoke bar until the wee hours.

The flood of privatizations is expected to end next year. But there will be plenty more work to go around. Time to stock up on the mineral water.

By Karen Lowry Miller
in Bonn



**BAKALA: A SEAT
ON PRAGUE'S
EXCHANGE FOR
CS FIRST BOSTON**

erving as co-managers get only about 1% of the commissions, no matter how many shares they sell. The result? Co-managers have no incentive to work hard. Critics say this leads to higher fees for the U.S. firms. It also adds to reduced demand—which means lower share prices for the issuer. Complains

top European government official: "They know they have a massively lucrative franchise, and they don't want to do anything to spoil it." Critics say issuers could sell more shares at a higher price if investment banks were compensated competitively.

LEADING THE PACK

1993 International equity deals	Amount (millions)	Number of issues (Jan.-June)	1993 International equity deals	Amount (millions)	Number of issues (Jan.-June)
CSFB/CREDIT SUISSE	3,447	12	LEHMAN BROTHERS	990	21
MERRILL LYNCH CAPITAL MARKETS	3,062	19	BARCLAYS DE ZOEETE WEDD	926	5
GOLDMAN SACHS	1,984	25	SALOMON BROTHERS	645	14
MORGAN STANLEY	1,447	11	J.P. MORGAN	616	2
S.G. WARBURG SECURITIES	1,190	4	KLEINWORTZ BENSON	533	4

DATA: EUROMONEY BONDWARE

Supporting their point is the third issue of British Telecommunications PLC stock, which came out earlier this year and rewarded firms based on the stock they sold in the U.S. market. Not only did three foreign firms sell twice as much stock in the U.S. as did U.S. firms in

earlier BT deals, but the British Treasury paid a 1% fee and selling commission, compared with U.S. fees that usually run from 4% to 5% of the total sale. Says Hugh Scott-Barrett, managing director for investment banking at Swiss Bank Corp. in London: "This seems to say that European houses can fight back by playing a more significant role in the U.S. distribution system" given a level playing field.

Despite their prowess in big global deals, U.S. firms striving to push into major industrialized countries with sophisticated markets and institutions, such as Germany, Britain, and France, encountered intense resistance from local competitors. In local privatizations or underwritings, they have generally had to play second fiddle to local investment banks—except where U.S. placement power has been absolutely essential. "You don't compete against the local banks for the local business. You compete for the cross-border business," says Maureen Hendricks, head

of global capital markets at J.P. Morgan. But in some cases, U.S. firms have made serious inroads, much to the dismay of local firms.

Consider Italy. That country is finally privatizing Western Europe's largest chunk of state-owned industry and banking. And Wall Street's traditional heavyweights

are getting many of the plum jobs. In mid-September, U.S. firms aced out the competition for two of the most prestigious privatizations, Credito Italiano and Banca Commerciale Italiana, two of the largest state-owned banks. J.P. Morgan was chosen as advisor for both banks, with Goldman Sachs as lead equity manager for Credito and Lehman Brothers for Banca Commerciale. Only a month before, Morgan Stanley and Goldman Sachs were picked to handle two other state privatizations. Milan's own Mediobanca and such big French banks as Banque Paribas and Société Générale haven't yet landed one major mandate.

EFFECTIVE. It's unusual for American firms to take the top spot on a European privatization. Most often governments give a local institution top billing and U.S. firms supporting roles. But Rome has been badly shaken by almost two years of scandals over high-level corruption. So competition has been unusually open by Italian or even European standards. By setting up a privatization committee and vetting bids, says one top government official in Rome, the Italian Treasury was able "to pick up the best."

And even when a government gives local institutions the top jobs, U.S. firms have still been effective in garnering lucrative supporting roles. Take France's \$5 billion privatization of Banque Nationale de Paris, the country's second-largest commercial bank, in October. Some 80 banks vied for the nine management slots that were available on the BNP deal. The government tapped French investment bank Lazard Frères to lead the entire deal. The other managers were four other French banks and four foreign banks, including Merrill Lynch and CS First Boston. What helped Merrill Lynch was hiring Claude Pierre-Brossolette, who once headed the French Treasury and Crédit Lyonnais, now France's biggest commercial bank, last May.

The most fertile opportunities for U.S. investment bankers are in the developing world. Here, European and Japanese investment bankers have made only limited inroads and the local finan-



cial institutions have small capital bases.

The catalyst for the U.S.-led emerging-market investment banking boom is the massive government movement to privatize thousands of state-owned companies, which has provided investment bankers with plenty of dealmaking opportunities. Wall Street firms have made highly successful forays into such emerging markets as China (page 106), the

Czech Republic (page 104), and Mexico (page 108).

Yet as they race to win the world, U.S. investment banks face some big potential risks. A resurgence in protectionism would slow down financial activity and leave U.S. firms with high overheads and slim profits. The lack of a legal framework and rampant corruption in the developing world makes do-

ing business dangerous. "There's not always the depth in financial markets to hedge yourself," says Allen D. Wheeler, president of CS First Boston. Overseas offerings can be especially dicey. Last year, as Merrill was in the midst of pricing a deal in Venezuela, the country was rocked by a coup. Luckily for Merrill, the deal closed on schedule.

U.S. firms also face risks in their

HOT SPOTS: China

'A WILD WEST' IN THE EAST

It's becoming almost a common sight in Beijing. Led by a police car with lights flashing, a motorcade of Mercedes-Benzes pulls up to the entrance of a government ministry and out pile teams of crisply dressed Wall Street executives. In the past year alone, the chief executives of Merrill Lynch, Salomon Brothers, Oppenheimer, and Bear Stearns, among others, have traveled to meet the likes of Premier Li Peng and economic czar Zhu Rongji.

The financiers hope to grab some territory in what could be investment banking's greatest frontier. Recognizing that equity stakes can generate triple-digit returns, U.S. firms are lining up to make direct equity investments in Chinese businesses. Says Bear Stearns & Co. CEO James Cayne: "China is the most exciting thing I've ever seen."

Exciting, but risky. The flow of deals is dominated by overseas Chinese tycoons with huge property and infrastructure projects in China and close ties to top officials. And disclosure is limited. Still, the potential gains make bankers' mouths water, because China's need for direct investment is staggering.

Morgan Stanley & Co. and Goldman, Sachs & Co. have been the most adventurous U.S. firms so far (page 110). Morgan, which has moved its Asian headquarters from Tokyo to Hong Kong to capitalize on China, last year decided to "really turn on the heat," says Asia Managing Director John S. Wadsworth. He, along with President John Mack, just returned from Beijing. Morgan has taken stakes in two investment funds, is negotiating to invest in several large mainland real estate projects, and is looking at a wide range of industrial projects.

Blackstone Capital Partners is also getting its feet wet, planning to invest \$250 million in Asia over the next five years, most of that in China. Oppenheimer & Co. has put together a group to identify up to \$100 million in invest-

ments in consumer-products companies. But it has yet to put together a deal. "It's a Wild West environment," says CEO Stephen Robert. "The risk is great, and the upside is great."

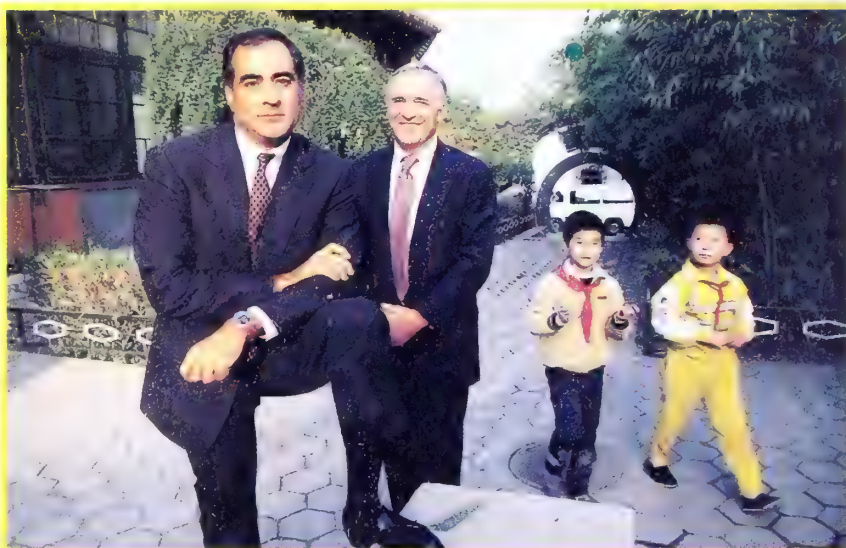
Others don't see any need to plunge in at all. Lehman Brothers Inc. floated China's first "dragon bond," placing \$300 million in notes with Asian investors, yet it has no plans to invest. Merrill Lynch & Co., Bear Stearns, and CS First Boston are also avoiding direct investments.

U.S. financial firms could play a big role in the development of the Chinese financial markets, though. Americans could advise the Chinese government on how to set up a bond market or a commercial paper market. "Given the sophistication of senior officials, they'll want to make sure the new structures are state-of-the-art," says John Lipsky, chief economist at Salomon Brothers, who just got back from China.

Before long, the parade of Mercedes carrying Wall Street financiers is likely to cause first-class gridlock.

By Pete Engardio in Hong Kong, with Leah Nathans Spiro in New York

**MORGAN STANLEY'S
MACK (LEFT) AND
WADSWORTH IN
BEIJING**





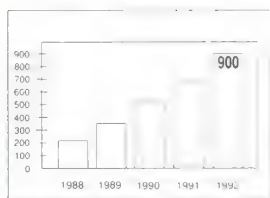
JANUARY 1, 1993

The day all European banks began operating within the new European single market.

JANUARY 1, 1993

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In Europe, not including France:



Number of Offices



Number of Employees



Assets (in billions of dollars)

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- 45 in the United Kingdom • 37 in Belgium • 33 in Portugal. In addition, we have 2,600 offices in France and another 840 offices in other locations around the world. Crédit Lyonnais is truly a universal organization, having a total of 4,350 offices, 77,200 employees and global assets of (US\$) 352 billion.



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creasing propensity to put their own capital on the line and make direct investments in the less-developed world. In 1991, Salomon Inc. invested over \$100 million in a joint oil-drilling venture in Russia called White Knights. Then, in 1992, the government slapped a \$5-per-barrel export tax on oil, erasing the profits. Salomon has since taken a \$65 million write-off on the project. Salomon

CEO Robert Denham even complained to the State Dept. about its treatment.

Finally, U.S. firms must face resentment from their overseas rivals whose markets they are invading. In many countries, they are depicted as carpet-baggers who parachute in to capture the most lucrative deals without even opening a local office. "They'll probably be the first to leave if the economy goes

sour," gripes Cedric J. Olivestone, head of correspondent banking at Bank Leu in Jerusalem. Maybe so. But Wall Streeters say they plan to be around for a long time.

By Leah Nathans Spiro and Phillip Zweig, with Kelley Holland in New York, Paula Dwyer in London, Bill Javetski in Paris, Neal Sandler in Jerusalem, and John Rossant in Rome

HOT SPOTS: Mexico

FROM THE BRINK OF DEFAULT TO A BONANZA OF DEALS

When Mexico detonated Latin America's debt crisis in 1982, commercial bankers swallowed losses totaling billions of dollars. During most of the 1980s, financial executives eyed Mexico with the wariness usually reserved for the scorpions found there. But things have changed. Now, Mexico City hotel lobbies are full of Wall Streeters eager to do business with firms they used to shun.

The opportunities are great. Goldman, Sachs & Co. handled the massive \$1.76 billion privatization of Teléfonos de México in 1990 and the telephone monopoly's subsequent equity offerings. CS First Boston Corp. advised the government on the sale of 18 state-run banks, raising \$13.5 billion for the Mexican Treasury. J. P. Morgan & Co. has handled debt and equity issues, privatizations, and more for the likes of cement maker Cementos Mexicanos and Bancomer, a leading Mexican bank. Morgan's latest megadeal: A \$1 billion Eurobond issue for Cemex.

**BEAR STEARNS'
MILLER
FACES FIERCE
COMPETITION**

Altogether, mergers and acquisitions, including privatizations, totaled \$7.2 billion in 1992, according to a CS First Boston study. And Mexican companies

issued \$4.3 billion in equity on New York stock exchanges.

Things could get even better. Bankers expect a surge in cross-border merger deals if the North American Free Trade Agreement is approved. And even without NAFTA they see continued good business as Mexico's economy approaches investment-grade status. Already high volume and reduced perceived risk has cut interest rates on Mexican bonds by 40% in two years. Payback periods have been stretching out as well. In September, J. P. Morgan inked a 12-year, \$50 million private placement for Kimberly Clark Corp.'s Mexican subsidiary—the longest

payback period registered in Latin America since the debt crisis began.

Competition for underwriting business is already so fierce that bankers' fees, while still lucrative, have fallen. Today, bankers often charge less to handle an initial public offering in Mexico than in the U.S. "Mexico is a more competitive place than it was two years ago," says Rebecca Miller, one of a half-dozen Bear, Stearns & Co. bankers who shuttle between Mexico City and New York. "Mexico's capital-import requirements will remain very large for years to come."

Mergers and acquisitions also remain profitable, and

U.S. firms are advising on plenty of them. Bear Stearns counseled Bell Atlantic Corp. on its recent agreement to acquire up to 42% of Mexico's second-largest cellular-telephone company for \$1.04 billion. J. P. Morgan handled Coca-Cola Co.'s April deal to buy a 30% share in Mexican bottler Femsa for \$195 million. And in the domestic market, Morgan helped arrange a \$210 million merger in August of two major Mexican insurers.

Markets can go out of style as fast as they come in. But at least for now, bankers are worrying a lot less about getting stung and a lot more about getting in on the action.

By Geri Smith in Mexico City



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GOLDMAN SACHS' SPECTACULAR ROAD TRIP

Why the Wall Street powerhouse could take the lead in global investment banking

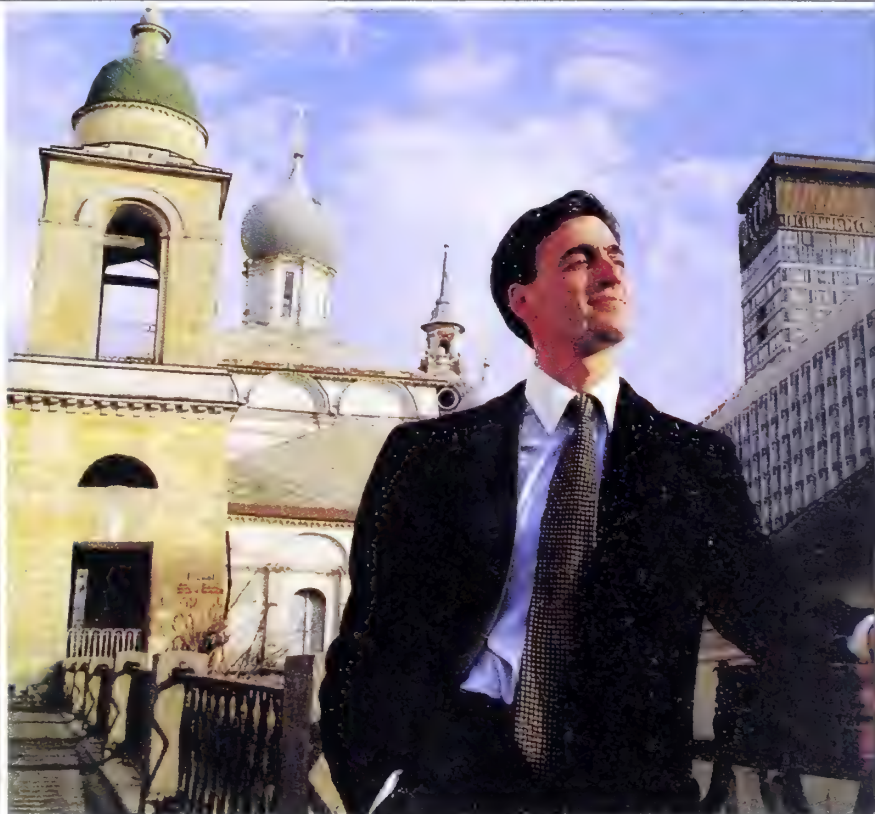


In the partners' 30th-floor dining room at Goldman, Sachs & Co., some of the richest men on Wall Street still chortle when investment banking co-chief Mike Overlock retells his story about traveling to Italy a few years ago to drum up business. In a meeting with executives of an Italian industrial company, Overlock was briefly stunned when one of them asked if Goldman was a Manhattan real estate brokerage firm. Without missing a beat, Overlock proceeded to describe his firm's capital structure. Awestruck that the zeros next to the partners'-capital line on the balance sheet were dollars, not lire, the Italians were now all ears. As if by magic, the room quickly filled with other company officials eager to meet the visitor from 85 Broad St.

Whether in Rome, Beijing, Buenos Aires, or Moscow, name recognition is no longer much of a problem for Goldman. Although it's too early to declare it the supreme leader in global investment banking—after all, nearly every major firm has already hit a home run or two—many are betting on Goldman for the long haul.

DEEP TIES. The simple explanation for Goldman's success to date—and the success it expects to achieve—is a Rolodex that may be the biggest on Wall Street. The firm's ability to get its foot in the door at the highest levels and its global placement power work hand in glove. Goldman's sheer size helps, too: Few non-U.S. firms can compete for a global mandate with an outfit boasting 7,000 employees worldwide and more than \$4 billion in capital. Then there's the stuff that would sound hokey if it weren't true: Goldman's stress on teamwork, hiring top people, and its long-term view.

Rolodex power was evident when Robert E. Rubin broke the news to fellow co-chairman Stephen Friedman that Rubin had been tapped by President Clinton to serve as his economic policy adviser. Rubin was scheduled to fly to Mexico to meet with President Salinas on company business. To avoid any possible conflict, Rubin handed his plane ticket to Fried-



man, who dashed home, packed his bags, and jetted off in Rubin's place. And if Goldman lost any connections with Rubin's departure, it regained them with the hiring on Oct. 19 of E. Gerald Corrigan, former president of the New York Federal Reserve Bank.

Thanks to its deep ties to institutional investors, Goldman is known for its ability to manage large underwritings. "Everybody can dial Capital Research and Fidelity and Mercury Asset Management," says equities co-chief David M. Silfen. But the firm that can tap into a global network of more than 1,000 large investors, he says, will "ultimately get the best price for the issuer."

Surprisingly, Goldman's prospects overseas aren't founded on old or deep roots there. It has had offices in London and Tokyo since the early 1970s and just recently opened offices in Milan, Taipei, and Seoul. And it owns J. Aron & Co., the world's largest coffee-trading company, with wide contacts in Lat-

in America. But Goldman began to zero in on emerging markets as a potent source of major new investment-banking revenues only in the late 1980s, when it became convinced that the talk about free-market reforms was more than idle chatter. Says Friedman, 55, who became sole chairman when Rubin left for Washington: "Until they opened markets there wasn't a lot we could do." Since then, says European chief Eugene Fife, Goldman has been pushing hard to get away from the idea that the "sun rises and sets over the East River."

But the firm has quickly made up for lost time. Focusing first on Mexico, it won the mandate in 1990 to advise the Mexican government on the privatization of Teléfonos de México and then led the syndicate that raised nearly \$1 billion in two global offerings. No single deal was more critical for the success of the privatization movement in Latin America—and for Goldman.

Goldman got the Telmex mandate

rt through its work in privatizing
ain's Telefónica de España. From
anish contacts, Goldman learned that
lmex was about to go on the block,
d Rubin took personal charge of court-
g Mexican President Salinas. Shortly
ereafter, Goldman led the initial public
ering for Grupo Televisa, Mexico's
gest IPO. A major factor in the firm's
ccess was the hiring of former J.P.
rgan & Co. Managing Director Jaime
Yordan, a native of Puerto Rico, who
w heads Goldman's Latin business.

companies in Argentina when "the guy
from Goldman was going through the
atlas looking for Buenos Aires."

Goldman has also scored in Germany,
which does not welcome foreign invest-
ment bankers. It broke Deutsche Bank's
stranglehold on dealmaking by persuad-
ing Volkswagen to allow it to co-lead an
international placement of shares not
bought by domestic holders. Mighty
Deutsche Bank wasn't pleased. Says Fife:
"It awakened people outside of Goldman
Sachs that transactions of this sort could
be done in Germany" by
non-Germans. This month,
it managed an offering in
the U.S. for Daimler-Benz,
which became the first
German company to be
listed on the New York
Stock Exchange.

To Goldman, Germany
was the gateway to the
former Soviet bloc. Since
1989, Goldman has spent
several million on its six-
person operation in Mos-
cow. Russia, though, hasn't
been a barn-burner. Doing
business and getting paid
in Russia is "like making
love to a porcupine," says
Fife. Goldman won an as-
signment to privatize an
auto company, but the
project got bogged down
in bureaucracy. Fife said
that during the recent
Moscow crisis, he tem-
porarily pulled his staff,
including director Evan New-
mark, back to London. He
acknowledges that "you'd
be crazy not to rethink" an
operation there but says

Goldman has no plans to abandon Russia.

In China, it is seeking to demonstrate
its staying power by opening offices in
Beijing and Shanghai and investing about
\$100 million in real estate and a power-
generation project. One of the first
underwritings was a \$250 million debt is-
sue for China International Trust & In-
vestment Corp., a 10-year issue of so-
called Yankee bonds that marked the
entry of China into the international debt
market for the first time since 1949.

To Goldman, all of these forays are

long-term bets. John C. Whitehead, a
former co-chairman, liked to say: "We're
greedy. But we're long-term greedy."
Such a philosophy is even more essential
in doing business in emerging markets.
Asked how long Goldman would wait
for a payoff in China, Friedman quipped:
"We're very Asian—50 years," but added
quickly that he was just joking.

STUNG. A major factor in Goldman's suc-
cess is a compensation and organiza-
tional structure that promotes cooperation.
Because compensation is based more on
subjective criteria than on transaction
count, officers in different departments
don't constantly bicker over how much
credit they should get for a particular
deal. And unlike other firms that are
organized by geographical region, Gold-
man brings in the firm's heaviest hit-
ters—from equities or from M&A—to
pitch in on a transaction in any region.

Goldman thinks the ultimate mark of
a truly globalized firm is doing cross-
border deals, say for French companies
in Germany as well as in the U.S.
Friedman says he also wants to sell
shares of local companies in local mar-
kets—a goal that isn't likely to sit well
with indigenous firms.

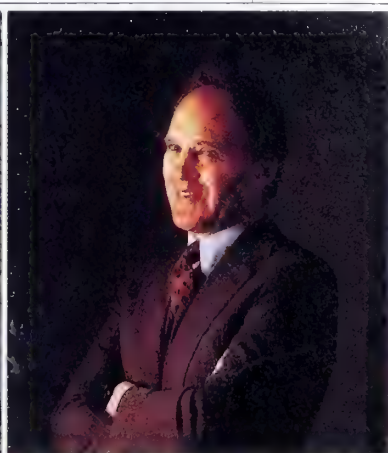
To be sure, Goldman's record over-
seas hasn't been perfect. For example,
Goldman was stung by its 1992 under-
writing for Taiwan's China Steel Corp.,
whose shares plunged shortly after the
offer. Sources familiar with the deal said
the problem stemmed from faulty valua-
tion and a misreading of the market.

And in Britain, Goldman got a black
eye for its ties to the late Robert Max-
well. In June, a British self-regulatory
body fined Goldman \$435,000 for techni-
cal breaches stemming from a Maxwell-
controlled fund's sale of shares.

No one accused Goldman of improper
conduct. But the Securities & Invest-
ments Board, Britain's watchdog, recent-
ly began an inquiry into stock transac-
tions between Goldman and Maxwell.

But these incidents are mere hiccups
for Goldman. While it doesn't discuss
revenues publicly, 1993 will surpass the
incredible 1992, when 161 partners made
more than \$1 billion. "We're well ahead
of last year's record performance," says
Friedman. And a growing share of those
riches is coming from overseas.

By Phillip L. Zweig in New York



**EVAN NEWMARK (LEFT),
HEAD OF GOLDMAN'S
NEW MOSCOW OFFICE,
ISN'T DOING MUCH
BUSINESS YET—BUT
CHAIRMAN FRIEDMAN
SAYS THE FIRM TAKES
THE LONG VIEW ON
PROFITS**

After laying down its marker in Mex-
Goldman headed south and began
italizing on the J. Aron contacts.
rk O. Winkelman, co-head of the
ed income department, says Aron
e Goldman an entrée to wealthy in-
tors as well as central-bank chiefs
finance authorities, with whom J.
on conducts a large business in pre-
is metals. Goldman's aggressiveness
some veteran Latin hands grum-
g. One senior commercial banker
s his people were busy calling on

GOLDMAN'S OVERSEAS PRESENCE

**PERCENTAGE
OF EMPLOYEES**

30

**NUMBER
OF OFFICES**

17

**NUMBER
OF COUNTRIES**

50+

**SHARE
OF REVENUES**

1/3

1993: GOLDMAN SACHS & CO.

STONNAVALES-A

BABYSITTING THE WORLD'S EMERGING BOURSES

American advisers are in heavy demand from Poland to Pakistan



When the Warsaw Stock Exchange began operations 31 months ago in a large room in the former Communist Party headquarters, no one would have

confused it with the Big Board. The brokers on the floor and Polish investors knew little more than the rudiments of buying and selling securities, much less such concepts as insider trading and financial disclosure. Yet today, the exchange is booming. Trading is conducted only three days a week, and stocks sell at only one price per day, but volume has topped a respectable \$100 million a week—a 400% increase this year alone.

Some of the credit for the market's rapid ascent goes to Robert Strahota, an official with the U.S. Securities & Exchange Commission. Strahota, assistant director of the SEC's Office of International Affairs and a market-regulation specialist, finished a year-long stint last July helping Warsaw officials cobble together a U.S.-style regulatory system for the fast-growing stock exchange. He's just one of dozens of U.S. securities regulators and exchange officials who are helping tiny, backwater marketplaces graduate to bustling international exchanges. Emerging nations from Malaysia to Costa Rica are trying to mimic the modern trading systems and investor protections featured in U.S. markets.

HELP WANTED. The main reason is that despite vibrant markets in Tokyo, Hong Kong, and London, many foreigners believe the U.S. has set the standard for large, modern exchanges. "The U.S. is viewed as the biggest, safest, and most important market," says Rudolf van der Bijl, manager of the Technical Assistance unit of the World Bank's International Finance Corp.

The need for more and larger exchanges is becoming acute, however. A decade ago, the 32 developing-country stock markets surveyed by the IFC had a combined market capitalization of \$67 billion for 7,300 listed companies. By last year, market value had soared to \$770 billion for 30,000 companies.



POLISH BROKERS ON OPENING DAY AT THE WARSAW STOCK EXCHANGE: THE NOW-BUSTLING MARKET HAS BENEFITED FROM A U.S.-STYLE REGULATORY SYSTEM

Overseas market officials also know that as dollars flood across borders searching for bargains in foreign markets, they must be out front in offering protection to investors. About 20% of Warsaw's trading volume comes from international investors, for instance, and a significant portion of that comes from the U.S. Strahota thinks the foreign markets have little choice. "Credibility may be the difference between success and failure," he notes.

Demand for help is so intense, though, that if U.S. expertise were a stock, trading would be halted by an order imbalance. Cries for help far outstrip the resources of U.S. regulators. The SEC has no budget for its technical-assistance program.

With resources tight, U.S. agencies prefer to bring foreigners to seminars in New York and Washington, but space at these conferences is in short supply. In 1991, the SEC set up an annual International Institute for Securities Markets Development that offered participants

two weeks at SEC headquarters, as well as two-week internships with such firms as Merrill Lynch & Co. and Goldman Sachs & Co. and with the New York Stock Exchange. "We were overwhelmed by the demand," recalls former SEC Chairman Richard C. Breeden. "We had to turn away some countries."

The kind of technical aid foreign exchanges seek depends on how long they've been around. New markets need help in upgrading exchanges and establishing such basic features as central clearing and settlement facilities, says Farida Khambata, director of the IFC's Central Capital Markets unit. More advanced systems are looking for more sophisticated U.S.-style services to support their securities operations.

FLOORS OR SCREENS? As U.S. emissaries embark on their foreign forays, they are taking to a world stage a heated and longstanding battle in the U.S. over which marketplaces are best for investors. Advocates of a floor-based auction market, notably the Big Board and the

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 than just our name.

Special Report

American Stock Exchange, and supporters of computerized trading, chiefly the over-the-counter NASDAQ system, are ardently preaching the virtues of their systems in the hope of proselytizing newly baptized capitalists.

Central and Eastern European countries are satisfied with traditional auction trading floors. However, several countries in Asia and Latin America are seeking advice on building electronic systems that would substitute computer screens for a trading floor. Frank J. Wilson, a consultant and former general counsel at the National Association of Securities Dealers, has been on NASD consulting assignments to India, Malaysia, Pakistan, and Thailand. The NASD, which operates NASDAQ, has a grand vision: "We're exporting [the concept of] screen-based markets," says NASD President Joseph Hardiman. "The plan is to eventually link them all together. Once that happens, we'll have a global market."

CHINESE STRUGGLE. The biggest battle between the two factions looms in China, which by the end of the century is expected to have the second-largest economy in the world. The country has two auction exchanges, the three-year-old

Shenzhen Securities Exchange, which trades 1,000 issues, and the two-year-old Shanghai Securities Exchange, which trades 500 stocks out of a turn-of-the-century office building in the city's seedy waterfront warehouse district. Provincial leaders want to maintain and

man says the central-government leader he met at a 1992 securities-association conference in Osaka expressed great interest in the merits of electronic securities markets. Other experts say Beijing continues to lean toward a computerized blueprint. The central government

SELLING U.S.-STY

SECURITIES & EXCHANGE COMMISSION

Formed institute to give officials from emerging markets annual crash course on U.S. regulations. Sends SEC officials to foreign governments to help draft securities regulations.

NATIONAL ASSOCIATION OF SECURITIES DEALERS

Promotes screen-based electronic securities markets among foreign governments. Sends staff to advise emerging markets on setting up electronic exchanges and regulations for broker-dealers.

strengthen these markets. That's why the American Stock Exchange alone has entertained more than 1,000 officials from China in the past few years. The Amex is hoping not only to spread the auction-market gospel but also to boost its foreign listings.

But Beijing has a different view of the future of trading in China. Hardi-

man realizes that it must pay far more attention to modernizing the current system if it is to support projected economic growth. Now, trading at the two existing exchanges depends on communications handled by the airline-reservation system.

Regardless of who prevails in the floor-vs.-computer battle, U.S. regu-

WHO HAS A SAFER, SIMPLER WAY TO MANAGE RETIREMENT SAVINGS FOR GROWTH?

ors are enjoying an unexpected dividend. In their zeal to attract foreign investors by demonstrating their markets' safety and soundness, other countries have become more cooperative with the SEC in rooting out fraud and corruption. Most important, the International Organization of Securities Commissioners is working to adopt American accounting

an SEC suit filed in federal court in Miami against a Costa Rica-based teak-tree grower called Bosque Puerto Carillo. The SEC alleges that the company tried to sell \$67 million of unregistered securities in the U.S. The commission also charges that the company's advertisements, placed in several airline flight magazines, overstated returns and failed

U.S. securities laws was inadvertent." Although more countries are adopting American-style securities systems, it's far from clear whether the trappings will really transform trading cultures that operate more like Middle Eastern bazaars. The Bombay Stock Exchange, according to one consultant, "is a den of iniquity."

But there are encouraging signs. Thailand's Securities & Exchange Commission is examining several brokers and investors for possible market manipulation. And India's Securities Board just completed a probe of a 1992 market scandal involving massive illegal futures-market trading that caused the crash of the Bombay Stock Exchange.

If other nations do adopt fundamental changes, the efforts could end a debate within U.S. securities circles over whether to ease American rules to protect U.S. markets from foreign competition. Critics of tough U.S. standards argue that more lax regulation elsewhere will drive trading overseas. But it's the foreigners who are changing—and they're elevating their standards. As the laws that have safeguarded American investors for years are exported, the U.S. may end up protecting American markets as well.

By Michael Schroeder in Washington

MARKETS ABROAD

NEW YORK, AMERICAN, AND REGIONAL STOCK EXCHANGES

promote the benefits of auction markets, particularly among growing Asian and Eastern European economies. Are expanding cooperative international market surveillance efforts.

U. S. TREASURY DEPT.

Has a team of advisers helping foreign governments develop monetary and fiscal policy and promoting such projects as issuing government securities.

DATA: BUSINESS WEEK

standards and rules on disclosure and insider trading. And more than 20 countries, including many in Europe and Latin America, have signed a cross-border initiative to assist one another on securities-enforcement actions.

The increased cooperation is already paying off. Costa Rican officials volunteered detailed information that led to

to disclose the risks in growing and exporting teak. Costa Rican securities officials helped by supplying information about the company and two principals. "When first confronted by the SEC," says Bosque's attorney, Alvin D. Lodish, "the company stopped the advertising immediately. The company believes strongly that anything done in violation of



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HANGING THE LAMES' OF THE GAME

boost underwriting, Lloyd's will let in limited-liability investors

eter Middleton's low point came as he stood on a podium at the Royal Albert Hall in May. Addressing 3,200 investors of insurer Lloyd's of London, many of whom had been devastated by losses in the late 1980s, Lloyd's new CEO argued for adoption of a radical proposal to revamp the venerable institution. "If we don't implement this plan by the end of 1995, you should fire me," he declared.

Actuating his request to carry out the drastic rescue package, "No, we won't," a cheer from the crowd erupted back. "We'll not you."

Five months later, Middleton's future was a lot more secure. On Oct. 20, Lloyd's investors voted in favor of the key element of the plan: giving corporate capital into Lloyd's syndicates for the first time. Because this will

Lloyd's a much-needed infusion of capital, an elated Middleton crowed that it "the first bad day competitors have in the past two years." Encouraged by higher pricing in the Lloyd's market and

limited liability, investment firms in both U.S. and Britain are readying new money to invest in Lloyd's. Such new investors will "drag Lloyd's into the modern era," says John Gardner, managing director of Standard & Poor's Corp. in London.

STAKES. The funds will dramatically alter how the tradition-bound market operates. For centuries, Lloyd's "lames," the individuals who pledge assets to underwrite insurance risk, have been to unlimited liability. That unique structure will change when institutional investors, reassured by offers of limited

liability, are admitted into Lloyd's starting Jan. 1. Many members felt they had little choice but to vote to admit corporate capital, recognizing that the steady loss of members and underwriting capacity is threatening Lloyd's survival. They hope a stronger Lloyd's may be more generous in settling claims against some of the managing agents in Lloyd's syndicates. Others feel that as the industry

**Lloyd's CEO
Middleton: He
had threatened
to resign if his
rescue plan was
voted down**



recovers, future profits will help them recoup earlier losses.

Corporate investors will likely bring a new level of financial discipline to Lloyd's. Reporting requirements will be toughened, and weaker underwriting syndicates will be weeded out. Anticipating interest by institutional investors, S&P, for example, recently began ranking Lloyd's syndicates based on their profitability. And the business plan calls for a new audit unit and better monitoring of underwriter performance.

The entrance of corporate capital also signals the end of what some consider

Lloyd's anachronistic capital structure. "No one in their right mind would continue to accept unlimited liability if they could avoid it," says John Emney, managing director of Charter Reinsurance Co. and a former Lloyd's name. Emney believes that within two to three years, all current members will have switched into investments that give them limited liability.

A FLOOD. Lloyd's has taken a pounding in recent years. Battered by claims from an array of disasters, including the Exxon oil spill, the number of individual investors has dropped to 19,537 from 31,329 since 1989, and underwriting capacity has shrunk by 19%, to \$13.5 billion. While Lloyd's once controlled half the world's insurance market, its share now hovers at 2%. And a growing number of rival firms are taking painful bites out of Lloyd's business.

Still, Lloyd's has a formidable name, and the vote is sure to unleash a flood of investments. Some 20 to 25 groups in London and New York are planning both public and private offerings to invest in Lloyd's. A list of 16 "potential corporate members" released by Lloyd's shows firms seeking to raise up to \$1.8 billion. In the U.S., Salomon Brothers and Donaldson, Lufkin & Jenrette, as well as insurance broker Johnson & Higgins, are believed to be involved in ventures to raise corporate capital. And Marsh & McLennan Cos., along with J.P. Morgan and others, plan to launch a \$500 million-plus fund to invest in "insurance situations" that could include Lloyd's.

Middleton, for one, estimates that institutional investors may account for as much as one-sixth of Lloyd's total \$13.7 billion that will be needed to back underwriting in 1994. Some market-watchers even say there may not be enough demand to absorb all the corporate funds. Too much capacity, it is feared, could drive down premiums. But coming after the recent capital drain at Lloyd's, it's a scenario that Middleton would much prefer to see.

By Julia Flynn in London

BY GENE G. MARCIAL

THE SHORTS HAVE LOST THEIR SHIRTS WITH CONSECO

Conseco is one of the market's sharpest and most volatile swingers—and one of the Big Board's star performers. In 1987, it traded at around 5 a share. It's now selling at 64. So is it time to bail out? No way say some pros who remain confident that Conseco will hit even higher ground over the next 12 months.

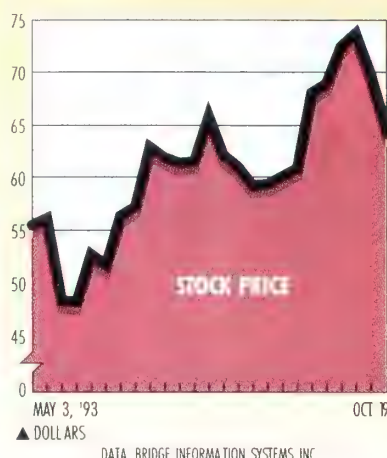
The shorts, however, are shaking their heads. They insist that Conseco is long overdue for a big fall—which explains the big short interest of more than 2 million shares in the company's 29 million shares outstanding. Yet Conseco is the one stock that has really "killed" the shorts, says investment adviser and veteran insurance analyst Ray Dirks. He says these incorrigible bears have lost some \$200 million in betting against Conseco, a holding company that owns and operates annuity, life, and health insurance companies.

Dirks believes Conseco will before long acquire a major insurance carrier. "Conseco is positioned to acquire a company similar to Travelers," he says. Primerica agreed to acquire Travelers in September. "Believe it—Conseco will be a much bigger company over the next few years," adds Dirks. The acquisition, he says, will be partly funded by the \$500 million Conseco is trying to raise through the partial sale of its Western National subsidiary. Merrill Lynch and Goldman Sachs will be among the underwriters.

RICH ASSETS. Another big Conseco bull is investment manager Martin Sands, chairman of Sands Brothers, a New York investment bank. He views the company as both an earnings growth play and an asset play. On both counts, Conseco is way undervalued, says Sands, who is convinced that Conseco is well-positioned to "double in the next 12 months." Based on assets alone, he says, the stock is worth 100 a share. Conseco owns 40% of CCP Insurance, currently trading at 30 a share, and 55% of Bankers Life Holding, selling at 25. Conseco will still retain a 48% stake in Western National after the public offering.

John Orrico, an analyst at Sands Brothers, figures Conseco's stakes in the three companies are worth about \$80 in Conseco shares. Two other whol-

A BUMPY RIDE FOR CONSECO



ly owned subsidiaries—Lincoln American Life Insurance and National Fidelity Life Insurance—are estimated to be worth about \$9. Add in Conseco's management operation and cash on hand (after adjusting for debt) of \$11, and Orrico comes up with an asset value of \$100.

Strong cash flow and earnings growth form the basis of the fundamental case for Conseco, says Orrico. Earnings of \$7.50 a share in 1993 and \$8.75 next year should be a reassuring plus, he thinks.

AMR: READY FOR TAKEOFF?

The airlines have been flying through dark clouds for some time now. Even the majors have been losing money. But investment manager Bill Manning, sees a silver lining through the gloom, so he's high on AMR, the parent company of American Airlines.

No, Manning isn't a contrarian. The president of the top-ranked Manning & Napier Advisors, which manages \$4.2 billion, is simply convinced that among the majors, AMR is now in the best position to take off fast in the wake of the industry's rapid consolidation.

He sees the continuing shrinkage of airline capacity, due largely to a decision by the airlines to desist from putting more money into new aircraft and to slash their work force, as an eventual boon to pricing. Manning says fares are on the way up because of the decline in the number of airline routes and seats. Fares for business travelers have risen some 30%, he notes.

American Airlines has reached crucial point where a slight rise in fares and passenger traffic will directly enrich earnings. So Manning forecasts that AMR will earn \$10 a share next year, about twice Wall Street expectations. This year, the company may only break even, vs. a \$6.35-share loss last year. Where does Manning think AMR shares are headed? He is confident that in a year's time, the stock—currently trading at 68—will soar to 100.

EASY MONEY AT THIS BORDER

One may simply dismiss Primadonna Resorts as just another of the many hotels and casinos in Nevada. But some gaming watchers say this one is thrice blessed: Location, location, location.

The company's two hotels are situated along Interstate Highway 15—right at the border of Nevada and California. "The resort enjoys an unparalleled ability to benefit from the continued growth in the Las Vegas-bound vehicular traffic from Southern California visitors, enhanced by the opening of the three megaresorts of MGM Grand Hotel, Treasure Island, and Luxor Hotel," says Jerry Levine, research director at Commonwealth Associates. Primadonna is the first casino visitors see after five hours of driving through the desert from Los Angeles, says Levine. Out of some 9 million cars traveling across the state border on Interstate 15 in 1992, about 27% stopped at Primadonna. The facility provides family entertainment, including a 300-seat theater, bowling alley, ferris wheel, carousel, and playground.

Primadonna's stock has been quiet to reflect the potential of the company's border resort. Trading at 19 in July, the stock climbed to 36 in late August. It is now trading at 28. Levine thinks record results over the next couple of years should lift the stock higher.

Nathan Dick, entertainment analyst at Commonwealth Associates, also thinks the company's strong earnings outlook "should ensure the stock's long-term above-average performance."

Dick figures that revenues will hit \$191 million next year, up from 1992's estimated \$146 million, and then zoom to \$250 million in 1995. He believes that Primadonna will earn \$1.45 a share next year vs. 1993's estimated \$1.10 and \$1.95 in 1995.

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WAYNE'S WORLD: BUSTING BEYOND VIDEO

Is Wayne Huizenga's breathless scramble to build Blockbuster Entertainment dazzling—or dizzy?

Paul McCartney made a guest appearance. So did Richard Branson, the flamboyant chairman of London-based Virgin Retail Group Ltd. And so did Aaron Spelling, founder of Spelling Entertainment Group Inc., creator of the popular television series *Beverly Hills 90210*. That the cameos at Blockbuster Entertainment Corp.'s annual shareholders' meeting in May were all on a giant video screen seemed only appropriate.

The guest spots helped Chairman H. Wayne Huizenga outline his ambitious plans to transform the Fort Lauderdale (Fla.) video-rental giant into a full-scale entertainment company. A year ago, Blockbuster's sole business was renting movies and video games. But what a difference a year makes (table).

With its purchase of three retail music chains, Blockbuster is now the No. 3 music retailer in the U.S., and it has a separate joint venture with Virgin to build megastores in the U.S. and abroad. In addition, Blockbuster will soon control two Hollywood movie studios and their lucrative libraries. Then, there are plans for indoor neighborhood entertainment centers. The company also owns 21% of Discovery Zone Inc., the chain of children's indoor play centers, along with franchise rights for 100 outlets. And it recently unveiled plans for Blockbuster Entertainment Village, a 2,600-acre-plus entertainment and sports complex in south Florida (page 124).

RAPID FIRE. All of that may have been just a preview. Huizenga's media make-over hit high gear on Sept. 29, when Blockbuster joined the epic battle for Paramount Communications Inc. by investing \$600 million in Viacom Inc. to bolster Viacom's bid against rival QVC Network Inc.

Does it all seem a bit frantic? Hollywood and Wall Street critics deride Huizenga's rapid-fire moves as a scatter-shot attempt to diversify away from a basic business that could become obsolete if video-on-demand and pay-per-view obliterate video-rental revenues. But Huizenga insists it's all part of a deliberate plan to turn Blockbuster into "a global entertainment company with different forms of distribution."

Huizenga and other Blockbuster executives say video rentals will be a healthy business for at least a decade or more. Indeed, revenues at existing Blockbuster stores jumped 6.1% in the first half of 1993. Analysts expect 1993 earnings to soar 66% to \$236 million on revenues of \$2.1 billion, up 75%. Blockbuster is using the cash thrown off by its 3,258 stores in 10 countries to diversify into other forms of entertainment. At the heart of the strategy are the 48 million folks who carry Blockbuster video-rental cards—13 million more than carry American Express cards. Huizenga figures he can use that cardholder base as a launching pad to turn Blockbuster into a worldwide entertainment brand name.

Blockbuster's metamorphosis into a glitzy media company began with the sponsorship of Paul McCartney's concert tour last year. The highlight was a two-hour televised special from Blockbuster Pavilion in Charlotte, N.C., one of the company's three amphitheaters. Blockbuster is now sponsoring Rod Stewart's tour. Such flash marks a shift from its previous get-'em-in-the-video-store marketing. "We wanted to signal to everyone who had anything to do with Blockbuster that we are a big-time entertainment company," says James L. Hilmer, Blockbuster's chief marketing officer.

But if the company's goal is clear, the contributions of the various pieces Huizenga is cobbling together to achieve it aren't—at least not yet. Take Blockbuster's forays into Hollywood. Huizenga rightly notes that

Blockbuster took a conservative approach in first buying separate stakes in Spelling and Republic Pictures Corp. and now financing a \$100 million merger of the two, from which Blockbuster will emerge as majority owner.

Both Spelling and Republic bring Blockbuster extensive libraries, from



THE MAKINGS OF A MEDIA MONSTER

DATA: COMPANY REPORTS

NOVEMBER, 1992 Enters music retailing with acquisition of Sound Warehouse and Music Plus chains, with total of 237 stores, for \$190 million in cash and stock.

DECEMBER, 1992 Forms joint venture with Virgin Retail

Group to open "megastores" in the U.S., and Australia, and acquire Virgin's interests in existing stores.

FEBRUARY, 1993 Buys out Republic Pictures for \$25 million.

rights to *Basic Instinct* and John Wayne movies, as well as TV series such as *Bonanza* and *Beverly Hills 90210*. Useful info for starting, say, a cable channel. Blockbuster brings a bonus to the studios: an enormous data base on how

films and actors fare among video-renters—helpful information for marketing and maybe even for casting.

Such synergies aside, Hollywood insiders are puzzled by Blockbuster's purchase of two studios that have little in the way of big-screen successes. Getting in on the cheap in Hollywood doesn't go very far. "Blockbuster will have a rude awakening if they think buying these two companies is going to open a lot of doors with anyone of quality in this town," sniffs one top insider.

And while Blockbuster's stake in Viacom raised the chain's profile among media companies, it raised concerns on Wall Street, too. Huizenga says Viacom's

library of CBS TV programs could be added to the NBC and ABC libraries of Republic and Spelling and repackaged for such formats as a cable channel. Viacom's cable systems, premium cable channels, and ties to a chain of theaters may give the studios additional distribution outlets. But the size of the \$600 million Viacom deal could limit Blockbuster's financial flexibility, says Heather M. Goodchild, an analyst at Standard & Poor's Corp. And the speed and diversity of its other moves also make her uneasy. "They are moving in many directions at once, and several of them are unproven businesses," she says.

MAKEOVERS. Blockbuster is pushing into some proven lines, though. After several acquisitions, it now has 507 music stores, where it has already boosted operating margins to just over 10% in the second quarter, from 7.7% in the first quarter. Its prototype for remaking all of the stores will open on Oct. 26 in Fort Lauderdale, while the first of 10 joint-venture Virgin megastores in the U.S. will open in late November in Newport Beach, Calif. Blockbuster will also spend \$38.5 million to develop megastores in Europe and Australia and finance nine more in the U.S.

But industry experts warn that Blockbuster won't enjoy the same cakewalk in music as it has in video retailing. While the video industry was a mom-and-pop business that was ripe for consolidation, music retailing is an established industry with big-time competitors. And analysts wonder why Blockbuster has assembled this particular group of outlets, many of them smaller stores that run counter

to the trend of larger ones with more selection. "I'm puzzled, because it doesn't make sense, and they had the advantage of starting from scratch," says one.

Blockbuster executives say they're building megastores with Virgin. And store size and selection may not matter so much if a new technology gets off the ground. The system, developed in a joint venture with IBM, can use digitized information transmitted from a central point to create compact disks and eventually videos, software, and games on demand in stores. But most music labels, citing copyright concerns, have so far given it a chilly reception.

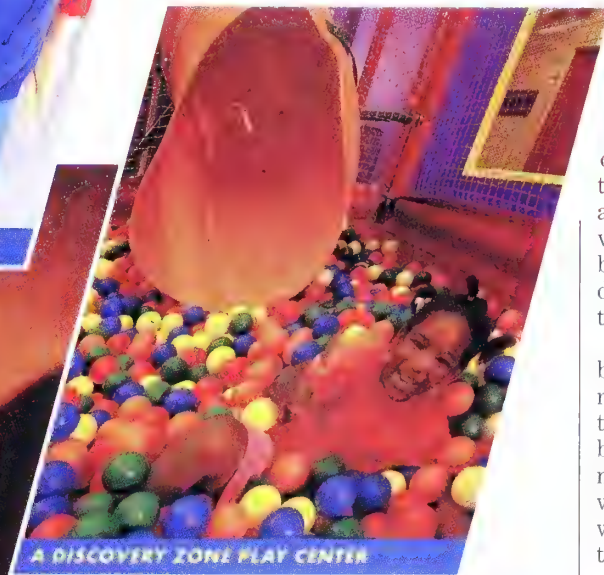
Blockbuster's plans for indoor amusement parks are the fuzziest of its new ventures. Huizenga signaled his



THE BEVERLY HILLS 90210



HUIZENGA HAS BIG PLANS FOR HIS 48 MILLION CARDHOLDERS



A DISCOVERY ZONE PLAY CENTER



SO FAR, THE CORE RENTAL BUSINESS IS A CASH COW

1993 Buys 21% of Discovery, operator and franchisor of indoor children's play centers. Acquires 54% of Entertainment Group. **1993** Increases stake in Entertainment to

63.5%. Total investment: \$163 million in cash and stock.

AUGUST, 1993 Completes buyout of its two largest video-store franchises, with total of 321 stores, for total of \$278 million in cash and stock.

SEPTEMBER, 1993 Invests \$600 million in Viacom, aligning with Viacom in its bid for Paramount Communications.

OCTOBER, 1993 Adds to music empire with plans to buy Super Club Retail, with 270 stores, for \$150 million in stock and cash.

SOUTH FLORIDA SPORTS FANS LOVE THEIR 'HIGH-ZINGER'

At Florida Marlins games, fans toss baseballs for him to autograph. At the home opener of the Florida Panthers hockey season, a cheering crowd gives him a standing ovation. Grateful south Florida sports fans affectionately call him Wayne, and *The Miami Herald* sports columnist Edwin Pope gently parodies his last name as High-Zinger.

Blockbuster Entertainment Corp.'s H. Wayne Huizenga might have bought into sports franchises because of their value as an entertainment business. But an incalculable side benefit is what the franchises have done for his image, especially close to home.

He's the only person in the nation to own major chunks of three sports franchises: In addition to the Marlins and Panthers, he owns 15% of the Miami Dolphins and half of Joe Robbie Stadium, where the Dolphins and Marlins play.

Now, Huizenga has a grand plan to build the Marlins and Panthers a new home. What started this spring as a proposal for a 300-acre site for a new arena grew to a 2,600-acre-plus complex straddling the Dade-Broward county line west of Miami and Fort Lauderdale.

SOMETHING FOR EVERYONE. On the drawing boards are a 45,000-seat baseball stadium with a retractable roof (to beat Florida's afternoon summer showers) a Little League stadium, a 20,000-seat arena for hockey, and a practice ice rink that would also be open to the public. To tie in with Blockbuster's other businesses, plans include a movie studio, recording studio, theme park, virtual-reality center, water park, and marine stadium, as well as a public area with shops and restaurants. Huizenga says the project grew after he got calls from unnamed potential joint-venture partners willing to help build the \$1 billion park. It isn't clear yet what Block-

buster's share of the outlay will be.

The project is up for a vote in November by Blockbuster's board, and it must also clear state and local regulatory hurdles. If Blockbuster's directors give the O.K., the company may then exercise an option to buy half of Huizenga's baseball and hockey franchises. Huizenga insists he'll make no profit on the deal and will bring in outside accountants to verify it.

As popular as he is in south Florida, Huizenga is still vilified in Tampa-St. Petersburg. Disappointed baseball fans there suspect that he worked behind the scenes last year to kill a deal that would have moved the San Francisco



THE PANTHERS' VANBIESBROUCK AND THE MARLINS' CARR: HUIZENGA WANTS TO BUILD A NEW HOME FOR BOTH TEAMS

Giants to St. Petersburg, which would have given his Marlins competition for Florida fans. Huizenga has denied doing anything to impede the deal and voted as a baseball owner in favor of the move.

Within baseball, Huizenga is regarded as a hands-on owner who attends league meetings and speaks his mind. Insiders point to Huizenga's efforts to repackage baseball and generate extra revenues through cross-promotions with Blockbuster. "He's a brilliant businessman," says Richard Ravitch, a labor negotiator for Major League Baseball. "This is where the sea change is coming in this business." And with the emphasis on business, Huizenga should feel right at home.

By Gail DeGeorge with Fernando Battaglia in Miami and David Greising in Chicago

seriousness by hiring Bill Burns, director of Disney World's Magic Kingdom, as president of Blockbuster's Entertainment Center Div. The idea, Burns says, is to compete with Walt Disney Co.'s theme parks but to create neighborhood amusement centers of 18,000 to 22,000 square feet. The prototype, which will include virtual-reality attractions, should be finished by mid-1994.

BUYBACK. Where does this leave Blockbuster's bread-and-butter business, video stores? Blockbuster bought back its two largest franchises in August and now owns two-thirds of its video stores. George D. Johnson Jr., president of Blockbuster's Consumer Div., expects to open 200 more Blockbuster stores in the U.S. in 1994. There are also plans to create a "game zone" within the stores that will feature video games, which have become a lucrative addition to Blockbuster's movie rentals.

Such moves prove that Blockbuster remains committed to the business, says Tim Nolan, chairman of the company's franchise advisory council. And he agrees with Huizenga that Blockbuster's vast retail network will be a player in whatever new technologies develop. "We're pretty comfortable that we're going to be in business," Nolan says. "The stores won't look exactly like they do today, but we'll be in business."

NEXT GENERATION. Blockbuster is already using its retail system to branch into new technologies. Stores in San Francisco will start renting CD-ROM machines and software this fall. And Sega of North America Inc., which already rents video games through Blockbuster, uses the stores to showcase its latest hardware, such as new virtual-reality goggles.

Huizenga is counting on that blue and-yellow Blockbuster card to tie all of those elements together. A new universal card will allow customers to rent videos at any Blockbuster store instead of at just one outlet. But the card may eventually be used at the neighborhood fun centers, the planned Blockbuster Entertainment Village, the music stores and Discovery Zones.

For now, the links among Blockbuster's parts are more prosaic. A Blockbuster video store in Miami offers a kid's video rental with a visit to a Blockbuster-owned Discovery Zone, for example. But even that tie-in shows how long-term Huizenga is thinking. "The promise he sees is not only with parents but with their kids, who will be the next generation of customers for his growing media empire."

By Gail DeGeorge in Fort Lauderdale with Ronald Grover in Los Angeles and Richard Brandt in San Francisco

"The Supra easily outgrips the Ferrari 512 TR and the Porsche 911 Turbo, is more stable in abrupt maneuvers, and digs to a halt with near identical determination."

Road & Track/August, 1993

"The Supra Turbo is an absolute beast."

Automobile Magazine/April, 1993

"The brakes are magnificent—I've never tried better."

Car and Driver/September, 1993

"There is every reason to believe that the Toyota Supra Turbo, at about one-fifth the financial assault of a Testarossa, can match the legendary Ferrari's pace on just about any twisted piece of asphalt. Ditto the \$100K Porsche."

Road & Track/August, 1993

"Supra Turbo is the MVP (Most Valuable Performer) of the Automotive Dream Team."

Motor Trend/August, 1993

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Popular Mechanics/March, 1993

"The ante to compete in the world's order of ultra-performance cars has just been raised. The Toyota Supra Turbo is the new Top Gun."

Motor Trend/August, 1993

"The Supra Turbo does what few other cars in history have been able to accomplish: Combine exoticar performance with luxo-coupe grace and deliver it all at a price that won't cause angina pectoris."

Motor Trend/August, 1993

"...could be history in the making."

Road & Track/March, 1993

"A world beater."

Car and Driver/September, 1993

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The 1994 Toyota Supra. It's Taken Everything Sports Cars Were Before

And Crossed The Line.

CAN JACK SMITH FIX GM?

ONLY IF HE CAN SPREAD HIS VISION THROUGHOUT THE STILL-STUMBLING GIANT

Sitting on the credenza in Jack Smith's office at General Motors Corp. is a large stone with a copper plate attached—a gift from his wife, Lydia. Etched into the copper are the words of Lao-tze, the 6th century B.C. Chinese philosopher. "A leader is best when people barely know he exists," the inscription says. "Not so good when people obey and acclaim him. Worse when they despise him. But of a good leader who talks little, when his work is done and his aim fulfilled, they will say, 'We did it ourselves.'"

A genial Irish Catholic who grew up making ice cream for the family business in Worcester, Mass., John F. Smith Jr. is hardly steeped in Eastern philosophy. Lydia Smith had the tablet made because she believed the words summed up what she felt made her husband different from the long line of gray-suited autocrats who ran GM before him. The Jack Smith she married "gets things done without standing there screaming and barking orders," she says. "It took me a while to see it, but he gets done what he wants to get done."

BYZANTINE STRUCTURE. Let's hope so. Since he was thrust into the chief executive's seat after GM's stunning boardroom coup a year ago, Jack Smith, 55, has been charged with fixing one of the most intransigent companies in America. GM is still sinking under the weight of its own bureaucracy, and the news lately has not been good. Even if he manages to avoid a labor strike, Smith will likely have to sign a new contract that saddles GM with three more years of heavy unemployment payments as the

company tries to unload 67,000 more union jobs. And GM missed its third-quarter production target by 95,000 vehicles because of widespread problems in its factories. That delayed delivery of badly needed 1994 models and briefly pushed GM's share of the U.S. car market to a 23-year low of 29.1% in September. As GM corrects the problems, market share will improve. But the debacle signaled that the company has a long way to go in its ongoing effort to remake itself.

Through it all, Smith has been largely invisible to the public eye. Not much of a speaker, he's edgy in the spotlight. He rarely grants interviews and has left most of the speeches to his executive vice-president, the affable William E. Hoglund. That's not to say he hasn't been making friends. Oddly, the last Detroit executive to gain as much popularity among such a diverse set of constituencies (from Wall Street to the United Auto Workers) was Lee Iacocca, Smith's polar

opposite. Both are admired for being straight shooters. But unlike the former Chrysler Corp. chairman, Smith is no cowboy.

Comparing the two usually takes the form of a question among GM's 334,000 employees, the company's countless suppliers, and the investors holding \$32.8 billion worth of GM stock: Can Jack Smith do with his company what Iacocca did with his? The jury is still out on that one. While Smith's low-key, Lao-tze style is pumping fresh air through the stale executive suite of the nation's largest industrial enterprise, GM's vast bureaucracy has so far gotten only a

JAPANESE
CARMAKERS
ARE LOSING
SHARE TO
CHRYSLER AND
FORD, NOT GM

SMITH IS OFF TO DECENT START...

► **MANAGEMENT** Smith reorganized convoluted divisional operating structure to create a single unit called North American Operations (NAO). Created the NAO Strategy Board to speed decision making. Pared corporate staff 2,500 from 13,500.

► **PURCHASING** Created a single global purchasing office to replace 27 separate purchasing departments. Slashed \$4 billion from the company's annual materials bill.

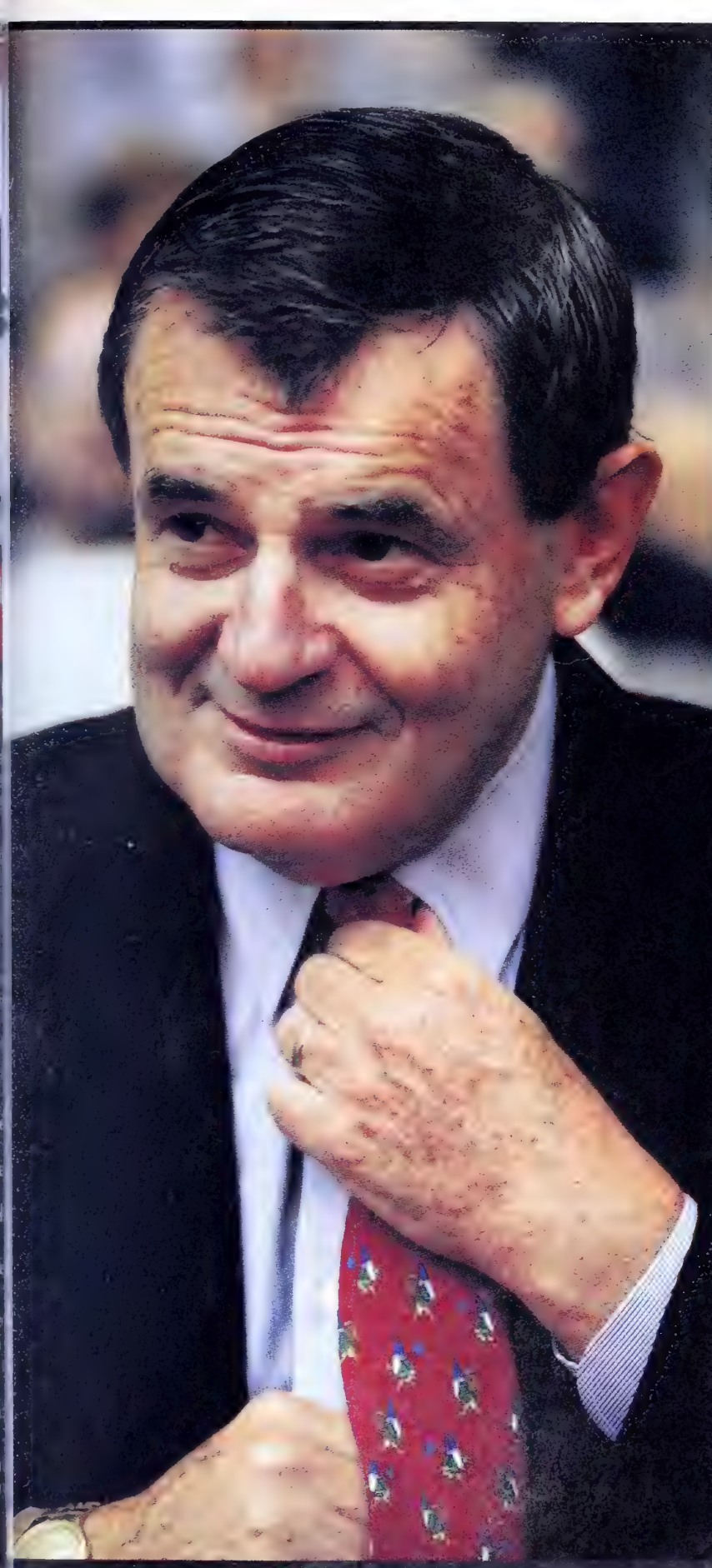
► **LABOR** Orchestrated early retirement offer that took 16,500 hourly workers off the payroll. New contract negotiations have been tough, but Smith tried to mend GM's badly frayed relations with the UAW.

► **PRODUCTS** Eliminated eight models from GM's bloated total of 62. Laid plans to phase out more. Consolidated car and truck platforms—the basic framework from which several models can be built—to 10 from 18.

► **RENTAL CARS** Slashed unprofitable sales to rental fleets by 27%.

► **ASSET SALES** Put noncore businesses totaling \$3 billion in annual sales on block—from a unit making bearings to one producing windshield wipers. Found buyers for units with annual sales totaling \$2 billion.

► **COMPENSATION** Eliminated executive bonuses and some perks. Froze salaries and cut health benefits for salaried employees.



whiff. Firing up the cadre of handpicked executives closest to him is a strong first step. But if Smith wants to fix GM, he will have to come to grips with the company's sluggish bureaucracy and force it to change its ways. He has not articulated how he plans to do that.

BOARD-CERTIFIED. Of course, by GM standards, Smith is moving like a rocket. By throwing open the window to real debate among top executives, he has encouraged his new team to act vigorously as it tries to remake the giant auto maker.

Working with a mandate from the board and following a map he used to turn GM Europe into the company's crown jewel in the late 1980s, Smith has simplified the structure of the company's Byzantine North American Operations (NAO), slashed the corporate staff, pared GM's product offerings, and

...BUT THERE'S PLENTY LEFT TO DO

► **BUREAUCRACY** Smith's biggest problem. Must galvanize GM's massive work force to change employees' hide-bound habits. That will require dramatically improving communication within the company and setting out a vision.

► **PURCHASING** Smith must mend tattered relations with suppliers angered by the draconian practices of Ignacio López, Smith's former purchasing czar.

► **PRODUCTIVITY** Because GM's cost per vehicle last year was \$486 more than Chrysler's and \$795 more than Ford's, Smith wants to shrink blue-collar ranks by 67,000 workers by 1996.

► **MANUFACTURING** A mix of parts, labor, and management problems created a 95,000-vehicle production shortfall in the third quarter. Smith must sort out what happened and work quickly to get new models out the door.

► **PARTS** GM must streamline its parts operations or get rid of them. The company makes 70% of its own components compared with 30% at Chrysler. Risks alienating the UAW in doing so.

► **PRODUCT DEVELOPMENT** Smith needs to update GM's aging vehicle lineup more frequently. The company averages eight years between models. Chrysler's lineup turns every five or six years. GM trails in hot markets for mid-size sedans and sport-utility vehicles.

► **PENSION FUND** GM will have to kick in \$8 billion by the year 2000. Maybe more under the new labor contract.

DATA: HARBOUR & ASSOCIATES INC., GENERAL MOTORS, DRI/McGRAW-HILL

HEWITT AGA

begun a sell-off of the company's bloated parts operations (table, page 126).

Moreover, his careful courtship of the UAW should allow him to ease the pain of a new contract that will likely follow the pattern set earlier this fall by Ford Motor Co. and Chrysler. Working within the pact's basic guidelines, Smith could win several small battles, including a mandatory two-week summer vacation for UAW members that may save the company \$170 million a year. More importantly, he may also gain greater flexibility to move laid-off workers to factories where they are needed. GM will likely pledge \$4 billion to cover jobless benefits over the next three years as it tries to further shrink its blue-collar work force. But attrition, buyouts, and new flexibility to move workers could help hold its actual expense to \$2 billion, analysts say. "He wants to work with us," says Stephen Yokich, the fiery head of the UAW's GM department. "That's more than we've gotten out of GM in the last 80 years."

NO HOLDS BARRED. For all the problems that remain—and they are myriad—Wall Street and the company's newly activist board seem to be happy with Smith's early results. That's partly because he is seen as an underdog—the man sent in to solve problems that are not of his own making. The stock, near 31 when he became CEO, has moved fitfully upward, to about 45. And Director Edmund T. Pratt Jr., the former chair-

A ROUGH FIRST YEAR

▼ López' penny-wise approach alienated suppliers and led to quality problems

► General Motors skewered NBC for its misleading story on GM's full-size pickups



man of Pfizer Inc., insists the board is pleased. "We all feel that he's living up to what we expected," Pratt says. "They're making progress."

But that may not be good enough. GM is already missing a golden opportunity to regain precious ground that it

lost to the Japanese over the past ten years. The strong yen has pushed up sticker prices for Japan's auto makers, shrinking U.S. market share for Toyota and Honda.

The trouble is, rivals Ford and Chrysler are the companies making gains, not GM. Indeed, while the other two American auto makers enjoy the fruits of hard-fought restructurings, GM still suffers from a cost-heavy vertical structure—not to mention sluggish development of new products (charts).

From the Saturn to the Cadillac

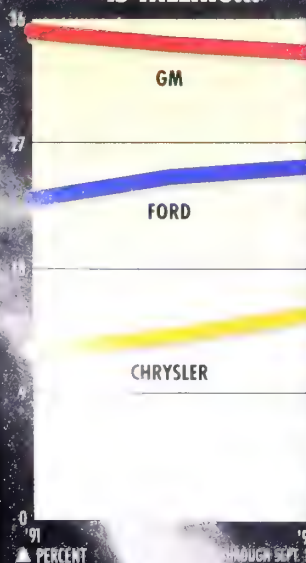
lac Seville, GM does have some hot sellers (table, page 130). But lackluster selling of cars such as the current Chevrolet Lumina and outright flops like the Chevy Caprice continue to create huge gaps that are eroding GM's once-proud position in the North American market. The Japanese have been introducing new models every four to five years, and Chrysler is closing in on that pace. GM, meanwhile, is still far behind. And problem divisions, such as Chevrolet and Oldsmobile, will take years, not months, to repair.

Smith acknowledges that GM is moving quickly enough. "We really need to crank up the energy level," he says in *BUSINESS WEEK*. He also admits that he has enormous problems communicating throughout the organization. While he hopes his reforms will trickle down to lower-level managers as they seek effectiveness of his efforts at the top, that method is painfully slow. At Chrysler, it took impending financial collapse and Iacocca's charisma to make change happen. Smith may have to reach beyond his reserved style to provide the kind of leadership his company desperately needs.

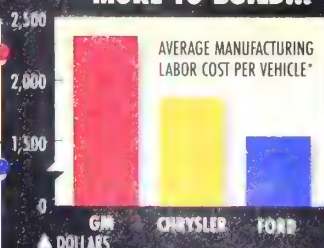
COME ON IN. Despite his 32 years at GM, Smith has already demonstrated that he is a huge departure from the company's previous management. The unassuming man who rarely seems to know where he left his suit jacket, with an open face and impish grin invites a new approach. GM's sprawling public-relations

GM VS. ITS U.S. RIVALS: A LONG WAY TO GO

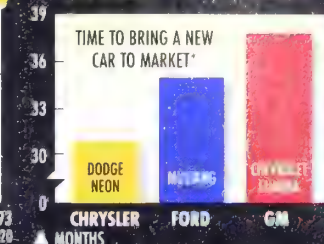
GM'S MARKET SHARE IS FALLING...



...ITS CARS COST MORE TO BUILD...



...AND THEY TAKE LONGER TO DEVELOP



REPORTS, HARBOUR & ASSOCIATES INC., CHRYSLER CORP., FORD MOTOR CO., GENERAL MOTORS CORP.



▲ Smith has courted the UAW's Steve Yokich (right), but it's too early to tell whether that will help GM significantly cut its labor costs

f keeps him well insulated from re-ers. But inside the company, Smith readily available. It's refreshing be- or for those executives who remem- the staid, uptight administration of er B. Smith, GM's chairman during tumultuous 1980s.

ack Smith's efforts so far have fo- d on unraveling the kinds of organ- onal complexities that have frozen n the past. At the top, he immedi- y abolished a tangle of executive agement committees and replaced n with a single North American tegy Board that tackles policy deci- s with no-holds-barred debate. The lt: quick decisions in what Smith o to call "real time."

ar-pricing decisions, for instance, to wend their way through five nittees over weeks or even months. , if a division like Buick or Oldsmo- has a slow-moving model, it can get oval on an incentive program with- matter of days. Says marketing J. Michael Losh: "We'll hold a pric- meeting on Tuesday afternoon that's w by the strategy board a day or after."

at sounds elementary, but the ef- are profound at GM. For years piles nt presentations in gray covers e handed around and managers e tightly scripted speeches to execu- they had already lobbied to assure oval. "We used to have pre-meetings e old days," Smith says. "We even pre-pre-meetings, so there wouldn't

be any big upset at the main meeting. Well, that's nuts. We don't do that. You want everything on the table."

Smith's straightforward attitude makes believers out of recalcitrant GMers. His style is to put the tough is- sues before his team and listen carefully to their responses. Consensus, he fig- ures, will emerge as long as you don't hide anything. "He is what you see," says Thomas R. Mason, head of GM Canada mar- keting. "There's no hidden agenda, no ego that makes you wish you hadn't said whatever you just said or worry about what you're going to say next."

OPEN CUBICLES. Perhaps Smith's biggest step to date has been his accel- eration of a plan to col- lapse GM's clutter of oper- ating divisions into the unified NAO structure. He had helped devise the plan under his predeces- sor, ousted Chairman Robert C. Stempel. But Stempel want- ed to do it over 18 months; Smith did it immediately. Cadillac, Chevrolet, Oldsmobile, Pontiac, and Buick still ex- ist as marketing organizations. But now, production, design, and purchasing are all under one umbrella.

The new NAO headquarters is a tur- quoise brick building on GM's sprawling campus in suburban Warren, Mich.

Smith moved the organization there to get it away from the 14th floor of the downtown corporate headquarters—the *sanctum sanctorum* of pampered man- agement that Ross Perot mocked so ef- fectively during his brief stint on GM's board nearly a decade ago. Left behind are the hushed corridors and the phal- anxes of guards and secretaries shield- ing the top brass. At NAO, all but a

handful of executives work in open cubicles and fetch their own mail. Signs exhort staffers to chip in 15¢ for each cup of coffee. Smith and other senior managers some- times line up for lunch at the small cafeteria in the basement.

The changes are signif- icant, but Smith knows GM must get smaller. Last year, he cut corpo- rate staff from 13,500 to about 2,500, shedding about half those employ- ees and reassigning the

rest to NAO. But GM is still bloated. Even after cutting 20,000 white-collar workers over the past two years, the 71,000 salaried employees remaining may be 25% more than GM needs, some analysts say.

Even senior managers sometimes voice frustration at the slow pace of change. Mark Hogan, head of GM's Bra- zilian operation, says that there is still

**ONE GROUP
HANDLES
STRATEGY NOW,
DEBATING
AND MAKING
DECISIONS IN
"REAL TIME"**

Cover Story

too much deadwood. "We could and should be doing a lot more in shedding redundancy," he grumbles.

And in eliminating complacency. Despite GM's market-share troubles, the company remains tightly wed to many of its existing systems.

Nowhere is that more troublesome than in product development. And it's not as though GM can't find good examples of what works better. Much of Chrysler's revitalization is due to dramatically revamping its product-development process to create autonomous "platform teams"—the kind Japan has used for years to whip Detroit. Ford is making strides in the same direction. GM is taking baby steps.

TIP TO TAIL. Chrysler's hot new LH line of sedans, in particular, has shown what organizing around the team concept can do for innovation and quality. Each team consists of members from engineering, design, finance, purchasing, and marketing. They are responsible for the car's design from beginning to end. They hash

through trade-offs, such as whether adding a peppier engine will push the car's final sticker price too high. Blueprints are monitored closely by manufacturing types so cars are easier to build. Because top management has given the teams broad decision-making power and made them directly responsible for the

success or failure of their products, mid-level managers are held accountable as never before. Success is measured in the marketplace.

Smith has made rejuvenating GM's tired product lineup a high priority. Trouble is, product development managers refuse to admit that their system urgently needs an overhaul. E. Michael Mutchler, GM's group executive for North American car platforms, won't even concede that someone else might have a better idea. "The school's still out on Chrysler's platform structure," Mutchler sniffs. He speaks of refining GM's process, but only by degrees: "We definitely are not going to radically change it."

GM has actually used platform teams for nearly a decade, but its approach is hampered by bureaucracy. Unlike Chrysler, the team member with knowledge of purchasing, for example, is largely beholden to the vertical purchasing structure. The engineering member answers to the engineering lossus. Moreover, while Chrysler's teams usually design a car with one or two variations, GM's often have to coordinate designs among its many market divisions. Mutchler describes a process where various members of the team have rigid areas of control and the right to overrule other members on key issues. "Everybody's bickering," says a source close to the process. That leads to frequent changes that muddle designs and add manufacturing costs.

Even when Smith's team tries to break GM from its bad habits, it often runs into big problems. Take the case of J. Ignacio López de Arriortúa, the electric executive from the Basque region of Spain who had helped Smith pull off his European turnaround. Unlike Smith, "Inaki" López was a firebrand who captured imaginations with such gimmicks as his "Warrior Diet" and his vow to wear his watch on his right wrist.

WHITE COLLAR RANKS MAY BE OVERSTAFFED BY 25%-AFTER 20,000 CUTS

THE BEST AND WORST OF GM'S LINEUP

WINNERS

CADILLAC SEVILLE TOURING SEDAN

Debuted in early 1992. Its crisp styling turns heads; a smooth, powerful Northstar engine system delivers high performance. Starting at just under \$45,000, it competes favorably with the Lexus LS400 and the Infiniti Q45.



SATURN The upstart division's sedans, coupes, and now a station wagon set a new standard for domestic small cars. People-pleasing styles, smart advertising, and no-hassle salesmanship at dealers have created big demand.



CHEVROLET CAMARO, PONTIAC FIREBIRD Redone this past spring, the pair of muscle cars offer up to 275 horsepower without the customary rattles and shakes. They start at just under \$14,000—but face stiff competition from Ford's new Mustang.

IMPACT PICKUP

New for '94, the Chevrolet and GMC Sonoma have more interior space and more predecessors. They provide more carlike ride and a more dynamic good looks along with the usual durability.



LOSERS

CHEVROLET CAPRICE Once GM's bread and butter, now only cops and cab companies can stomach it. Its bloated-whale silhouette, introduced in 1990, is a prime example of how GM lost touch with consumers. Rivals Ford Crown Victoria and Mercury Grand Marquis clean up.



OLDSMOBILE A confused brand image, lackluster lineup. Sales have slumped 60% since 1986. Olds is trying to remake itself a la Saturn from the plant floor to the showroom. It's pinning hopes on the Aurora luxury sedan to debut next spring.



CHEVROLET S-BLAZER

Jeep Grand Cherokee and Ford Explorer have left Blazer in the dust in this hot segment. Blazer's rough ride and trucklike handling don't measure up to their more carlike performance. Due for a major overhaul in the spring.



CHEVROLET LUMINA FAMILY SEDAN:

An also-ran among the increasingly sophisticated sedans crowding this hot market. Ford's Taurus, Honda's Accord, Toyota's Camry, and Nissan's Altima all outshine the lackluster Lumina.

North American unit turned profitable. Says Furman Selz Inc. analyst Ryan Keller: "What Jack found in-
 orating about López is what's lacking
 GM"—the revolutionary passion, the
 in the belly.

With Smith's blessing, López quickly
 pt 27 separate purchasing divisions
 a single entity that finally realized
 leverage of GM's enormous purchas-
 clout. López then be-
 tearing up contracts
 demanding double-
 t price cuts from sup-
 ers. He shared their
 prietary blueprints
 h rivals in his quest
 lower bids. And while
 quickly shaved \$4 bil-
 off GM's purchasing
 he generally created
 rmous animosity.

López shocked Smith
 defecting in March to
 kswagen. And while
 is suing him for al-
 edly stealing company
 ets, Smith still val-
 the man who was
 a close friend. "One
 g I feel very strongly
 at," he says, "is that
 ing Inaki to the
 was the right move
 General Motors."

(ING PEACE. It's true
 Smith desperately
 led the money López
 saving GM. It ac-
 ts for most of the
 pany's swing from loss toward prof-
 its North American operations this
 . López pumped up the purchasing
 ation and placated both Wall Street
 GM's uneasy board of directors.
 ever, GM has finally recognized the
 mity of its suppliers' anger and sent
 new purchasing chief G. Richard
 goner off to smoke the peace pipe
 some 200 of them.

he episode says a lot
 it GM's approach to
 ing itself a leaner,
 ker manufacturer.
 whole idea behind
 proven Japanese style
 anagement is to cre-
 teamwork both within
 company and with es-
 al outside "partners"
 suppliers. But establishing a mono-
 purchasing organization and then
 g it to beat parts makers over the
 has not inspired trust.

liot B. Ross, chairman of Inverness
 ings Group Inc. in Grand Rapids,
 ains the problem by comparing GM
 hrysler. Because Chrysler purchas-
 agents consult regularly with the
 neers and designers on their plat-

form teams, they realize the lowest-cost
 part isn't always the best. Chrysler re-
 cently bought a new part from Ross for
 30% more than the original, because the
 engineer believed it would save time in
 putting the car together—thus improving
 quality and reducing overall costs. In-
 verness hasn't experienced that sort of
 thing while working with GM.

Some major suppliers say bluntly,

5% savings turned into a 15% loss," the
 second supplier says.

More disturbing is that outside suppli-
 ers may be the least of GM's problems.
 Its own Tonawanda (N.Y.) engine plant
 was the main cause of its snafu-plagued
 third quarter. Engineering problems on
 the production line, labor-scheduling
 headaches, and faulty testing equipment
 halted production of two new engines.



The Smiths at the Frankfurt Auto Show: Will his success at GM Europe travel?

That in turn crippled car assembly in five other GM plants.

The one bright light is that GM didn't make the decision to ship its cars with faulty parts—something it has been known to do in the past. Says Executive Vice-President Hoglund: "We wouldn't have had the shortfalls in previous years because we would have had a ton of inventory. We would have shipped cars that didn't have the quality."

Creating a lean manu-
 facturing organization is
 dear to Jack Smith's

though not for attribution, that they
 no longer invest in technical research
 for GM—for fear they won't be able to
 recoup costs. "What if you pour hun-
 dreds of thousands of dollars into help-
 ing design a part, then you don't get
 the contract?" asks one. Instead, they
 say they'll take new technology to
 Chrysler or Ford—a development GM
 can ill afford. Waggoner
 insists GM's market clout
 will keep this from
 happening.

But already, the López
 system is causing prob-
 lems. At the company's
 Arlington (Tex.) plant, an
 ill-fitting ashtray from a
 new, sub-par supplier
 caused a six-week shut-
 down of Buick Roadmaster production.
 At another plant, GM managers had to
 go begging for help from a supplier that
 López had rejected in favor of one that
 bid 5% less.

Trouble was, half the low bidder's
 parts flunked quality tests. So within
 four days, the other supplier geared up
 to make parts that were flown to GM
 by charter plane. "My guess is that their

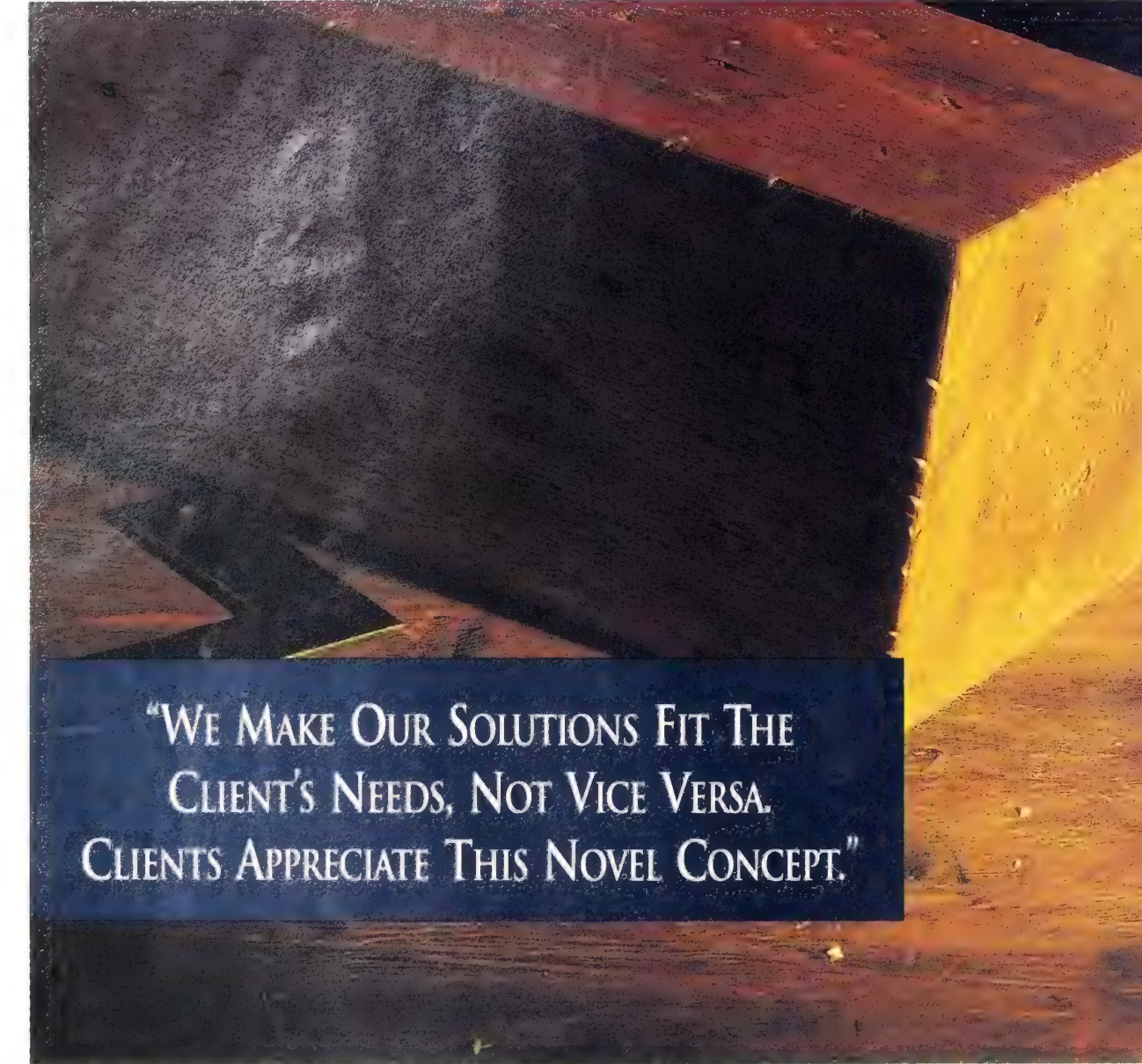
heart. He did it in Europe, and he vows
 to repeat his success in the U.S. No
 longer will manufacturing bosses have
 the buffers of extra inventory and plant
 capacity to compensate for mistakes.
 They must become nimble enough to
 cope with the unforgiving lean system—
 weighing risks and responding imme-
 diately when problems inevitably sur-
 face. The recent production troubles
 signal that GM is starting down that
 rocky road. To steer through it, manag-
 ers must develop a clear sense of pur-
 pose, something absent in large sectors
 of the company.

Smith has already done more to help
 GM than his predecessors did in a
 decade. But his quiet style has not yet
 galvanized GM's sprawling work force to
 embrace sweeping change. He has asked
 for help from both the union and his
 suppliers. Now, he's going to have to
 motivate GM's unwieldy bureaucracy to
 learn how to help itself.

By Kathleen Kerwin, with James B. Treece and David Woodruff, in Detroit, Kevin Kelly in Chicago, and Michael Oneal in New York

**THE PAYOFF
 FROM LEAN
 PRODUCTION IS
 STILL ELUSIVE**

Cover Story continues on page 134



**"WE MAKE OUR SOLUTIONS FIT THE
CLIENT'S NEEDS, NOT VICE VERSA.
CLIENTS APPRECIATE THIS NOVEL CONCEPT."**

Each client's needs are different, and the solutions to problems have very close tolerances.

The key is to know your client and to be able to fine-tune your structures to the precise fit that's required.

Shaping our solutions to fit the client's needs is part of building relationships that work to maximum effect, that last, that are mutually valuable.

That's what we do at Chemical. We know how to structure the right solution the first time, in a spirit of teamwork. Because we can do this repeatedly across a wide range of needs, our clients can have the kind of multifaceted relationship they prefer.

Our broad-based approach produces results. For example, we rank first in the world in loan syndications, thanks to





uring expertise and our strong emphasis on distribution. natural extension of these strengths, Chemical Securities can now underwrite and deal in all types of debt securities in the United States, including corporate bonds.

Chemical also has leadership positions in trading, treasury, corporate finance, operating services and capital markets activities worldwide. And, at a time when others

have retreated from international arenas, we have a global network across 35 countries.

Our formidable market presence, growing capital strength and higher credit ratings have demonstrably increased our usefulness to our clients.

Get to know Chemical, and what we can do for you. You'll find the fit precise.

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THE MAN WHO WOULD BE GM'S SAVIOR

A peek at the Jack Smith behind the resumé

From the moment 32 years ago when he first walked through the doors at General Motors Corp., it was obvious to Jack Smith that the world's largest corporation had begun to outgrow itself. In Framingham, Mass., at least, the house that Alfred Sloan built had stopped making sense.

The cavernous Framingham plant was shared by two of GM's proudest divisions—Chevrolet and Fisher Body. And to the quiet new guy in payroll, the mutual animosity between them was incomprehensible. "They had a line down the middle of the floor," Smith recalls in amazement. "And there were times when the plant managers of both sides didn't speak to one another." As chairman in the 1930s, Sloan had created a massive, faceless bureaucracy to manage a raft of separate fiefdoms. "During his time, it was a phenomenal system," Smith says. "But General Motors needed to change."

NO SPELLBINDER. Unfortunately, the change hasn't come fast enough. And one look at GM's new CEO as he mans the microphone raises questions about his ability to speed things up. While highfliers like General Electric's Jack Welch and Tenneco's Mike Walsh rivet an audience with spontaneous banter, Smith's stumbling speeches sometimes make you want to finish his sentences for him. He isn't flashy. "He's just a smart, tough operator," says GM director Edmund T. Pratt Jr.

Whether Smith can inspire GM's torpid bureaucracy remains to be seen. But his even-keeled, straightforward personality has served him well so far. Smith turned GM Europe into a world-class operator. He led the way on the first full-blown joint venture between a U.S. and a Japanese car company. Always a fast-tracker at GM, he rarely comes across as one. Managers like to work for him—and that yields results.

Part of Smith's charm is that he has never drifted far from his upbringing in a working-class, ethnic neighborhood in Worcester, Mass. The second of four children, he grew up on one floor of a three-story house. "He was always a boy of

very few words," says Donald Moran, a close schoolyard buddy. "But he was one congenial Irish kid."

Friends say Jack takes after his father, John Smith, a quiet, patient man who ran the city's Health Dept. John and his two brothers were the first generation to move off the dairy farm started by Jack's Irish emigré great-grandfather. They also ran Smithfield Famous Ice Cream, a manufacturer with eight ice cream parlors. Jack's mother, Eleanor, was a Sullivan, a family well represented on the police force and in Worcester politics. Charles F. "Jeff" Sullivan, Jack's uncle, was mayor of the city during the late 1940s and later became the state's lieutenant governor.

Devoutly Catholic, the Smith clan put a big premium on education. Jack's older sister, Mary, spent a decade in a convent and went on to earn a doctorate in Sanskrit. She taught at Vassar and the University of North Carolina. She now teaches at Tufts University. Younger sister Sally (now Sally Mahoney) became an English teacher. She recently earned a master's degree in social work.

COUNTER OFFER. But Smithfield's occupied the kids as they were growing up. After school and on weekends, they pitched in making ice cream and running the stores. Sally recalls that working the counter "wasn't Jack's thing." As now, he preferred to work behind the scenes, mixing ice cream and lugging the big tubs. Holidays were the busiest. On Christmas Eve, recalls brother Michael T. Smith (now vice-chairman of GM's Hughes Aircraft Co. division), the family would work until 1 a.m. preparing ice cream orders that they began delivering at 8 a.m. the next morning.

Upon graduating with a degree in production management from the University of Massachusetts in 1960, Smith hired on at GM in Framingham as a payroll auditor. Shortly after, he married his high school sweetheart, Marie Hollo-way. Before long, he was commuting

Smith, standing in back of his father, in a family portrait; and a delivery truck from the Smithfield ice cream business that the family operated in Worcester, Mass.

nights to Boston University for an MBA. And by 1966, he transferred to the GM treasurer's office in New York, a key stop on the auto maker's fast track for promising young executives.

Smith was transferred to Detroit in 1976—first as assistant comptroller, then as comptroller. His first operations job came in 1982, when he named director of worldwide product planning.

In the new job, Smith was put in charge of negotiating an ambitious venture with Japan's Toyota Motor Corp. to operate a joint factory near San Jose, Calif. Inaugurated in 1984 as New Ut





ment techniques, GM Chairman Roger B. Smith went on an automation binge, spending billions on robots that didn't work. Jack Smith, however, took much of what he learned to heart. It showed when he got the chance to run the European operation in 1986.

SHREWD MOVE. By that time, Smith's long hours and grueling travel schedule had taken their toll on his marriage. When he had moved to Detroit, Marie had kept a home on the East Coast, and their relationship had never really been the same. The promotion to Europe precipitated their divorce. When Jack's sister Sally took him to the airport for his big move, she remembers how dejected he looked. "He was seriously overweight," she recalls. "As he walked away, he was just all stooped over."

The first few months were lonely ones.



ed Motor Manufacturing Inc. (NUMMI), the pro- was an eye-opener for Smith. He bowled over during a couple of vis- Toyota City and became convinced Toyota's production methods were ticket to the future. His bosses in it didn't all share his enthusiasm. Smith saw NUMMI as a chance to from Toyota.

comes as no surprise that GM's do- ic operations were to absorb little of the Japanese had to offer. Instead nbracing Toyota's nimble manage-

The flagship Adam Opel division in Germa- ny was slumping badly, and "when I got over there," Smith recalls, "I wasn't sure that I had really thought it through very well."

One of his key steps was to promote José Ignacio López de Arriortúa, then a feisty engineer with GM España. López spearheaded the charge in purchasing, breaking GM's dependence on expensive German suppliers. Smith slashed central staff and sold unprofitable parts operations. Meantime, he crafted a unified team out of a bunch of squabbling executives from different countries and he depolarized divisions like Opel and

Britain's Vauxhall Motors Ltd. When GM Europe moved its headquarters from Opel's base in Russelsheim to neutral territory in Zurich, Smith kept the new offices small to ensure that the staff couldn't grow beyond 200 employees.

He also worked hard to make Europe act more like Japan. Smith introduced "just-in-time" delivery of parts, cutting excess inventory. He closed the smaller of GM's two plants in Antwerp, Belgium, and added a third crew at the remaining factory. The move required delicate talks with Belgium's intractable unions but saved millions in overhead. Introducing 24-hour-a-day manufacturing in Zaragoza, Spain, he upped production by nearly a third with the same fixed costs.

The 2½-year stint in Europe was a watershed for Smith as a manager. But some of the benefits were more personal. When he arrived in Zurich, Smith was assigned a new secretary, Lydia Sigris. It only took a few days for romantic sparks to fly, but they agreed they couldn't date as long as she worked for him. "She left the company—immediately," Smith laughs. "So I figured she was very serious." As she recalls it: "One of us had to leave, and Jack had more seniority."

FAMILIAR FACES. Lydia took Jack on hikes in the mountains, encouraged him to lose 40 pounds, and spruced up his wardrobe. When Smith was transferred back to Detroit in 1988, he returned to Switzerland a few weeks later to get married. Since then, Lydia Smith has become his No. 1 confidante, in business as well as personal matters. Sharing a firm belief in the sacredness of the family vacation, they spend time every summer at Cape Cod with Lydia's college-age daughter and Jack's two grown sons.

Smith's European experience is the foundation for what he's trying to do now in the U.S. He has brought many of his trusted lieutenants with him. López created huge animosity among GM's suppliers and embarrassed his boss by defecting to Volkswagen. But he also saved \$4 billion in annual purchasing costs. Several others, including new GM Europe President Louis Hughes, have leapt over GM's old guard to revitalize the executive suite.

Add in Executive Vice-President William Hoglund, who originally headed GM's wildly successful Saturn Corp. project, and General Counsel Harry J. Pearce, who skewered NBC for its shoddy "exposé" of GM's pickup trucks, and Smith has a solid team. He's off to a good start. But he has a long way to go before he can say he has truly erased the old lines that divide GM from prosperity.

By Kathleen Kerwin in Detroit

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DIAL R FOR RISK

As the Bells start wheeling and dealing, chances for failure soar

Since their separation from the old Bell System in 1984, the seven Baby Bell telephone companies have prowled the globe in pursuit of new opportunities. Some, such as Bell South Corp. and Southwestern Bell Corp., have invested heavily in cellular phone systems outside their home regions. Others, such as U S West Inc., tried their hands at real estate. And all have invested abroad. But for all their efforts, these seven siblings have wound up remarkably close to where they started. Plain-vanilla phone service still produces most of their revenues and profits. It's a good, steady business.

Until now. The Oct. 13 merger agreement between Bell Atlantic Corp. and Tele-Communications Inc. has set the stage for a dramatically different second decade for the Baby Bells. While it will be hard to match the \$12 billion-plus deal to swallow up the

nation's largest cable-TV company, it's almost certain that other Baby Bells will be taking far bolder—and riskier—steps to break out of their low-growth, low-return local phone markets.

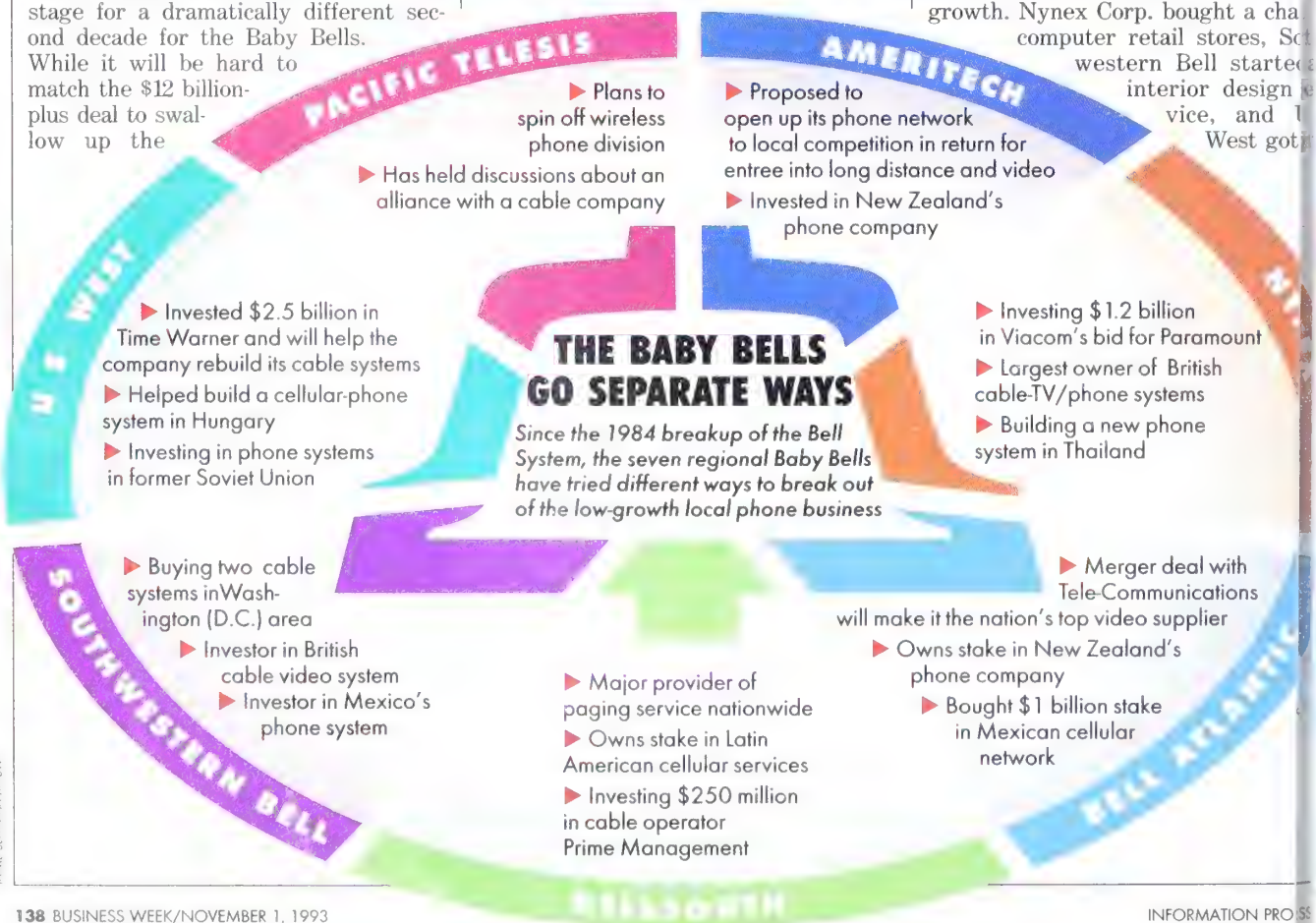
MORE DEALS. They may have little choice. With the spread of digital technologies—ranging from wireless phones to combined cable-TV/phone networks—the local phone monopoly is increasingly vulnerable. And investors have started to view the Baby Bells in a new light. Citing the threat to the monopoly—and the anticipated rush into riskier businesses as a result—Merrill Lynch & Co. recently changed its ratings of all seven Babies from low to moderate risk.

So more deals are on the way. Every Bell is said to be seeking at least one ca-

ble partner. That's because, like Bell Atlantic, they believe that interactive video systems—in which the viewer requests a specific show or movie at a specific time—will become the growth industry of coming decades. One possible candidate is Cablevision Systems Corp., the Woodbury (N.Y.) operator that Bell Atlantic talked to before hanging up with TCI. Now, Cablevision is believed to be talking with U S West.

And, industry executives say, it's just new pipelines to homes these companies are after with their cable deals. The Bells recognize that the real money to be made in the interactive future will come from charging consumers for shows and other services, not simply from providing the infrastructure they have with phone service. That's why Nynex is backing Viacom's bid for movie studio Paramount Communications with a \$1.2 billion investment. Analysts say more deals for "content" on the data superhighway will follow.

While most analysts—and investors—applauded the Bell Atlantic deal and eagerly anticipate more mergers and alliances, the track record of the Bells is not that encouraging. Since their formation, the companies have thrown out of money at nontelephone ventures, largely futile attempts to find growth. Nynex Corp. bought a chain of computer retail stores, Southwestern Bell started an interior design service, and U S West got



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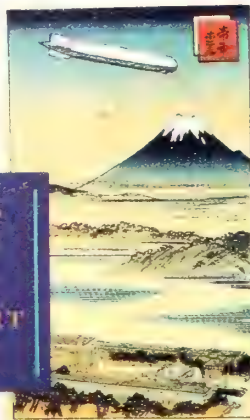
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financial services. "Most of their ventures have not turned out very well," notes Michael Noll, dean of the Anderson School of Communications at the University of Southern California. In fact, on the day it announced the merger, Bell Atlantic said it would not enter the financial services business, though says the operation remains profitable.

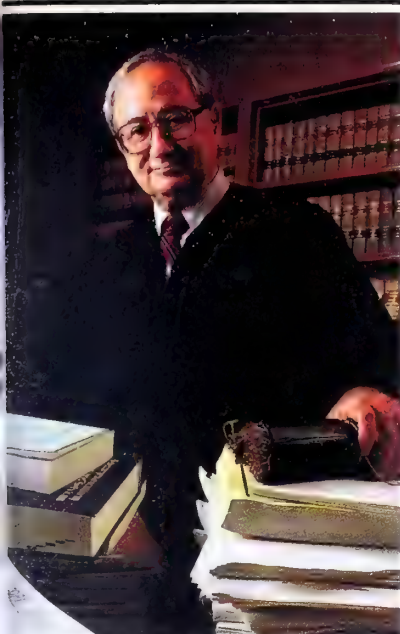
Frequently, the Bells have done business outside the U.S. Many have invested in constructing cellular phone systems, which have proven wildly popular in less-developed countries that have no wired phone networks. Southwestern Bell has more than doubled its mobile phone service on paper, on the \$1 billion it invested in Telefonos de Mexico. Other Bells have put their money into foreign cable systems, particularly in Britain.

Now, the Bells are turning their attention to the U.S. market. The first major deal was U.S. West's \$2.5 billion investment in Time Warner Inc., announced in May. Under that alliance, the Baby Bells will help Time Warner rebuild its cable-TV systems for interactive video and phone service. Southwestern Bell, meanwhile, is spending \$650 million to build two cable systems outside Washington, D.C., from Hauser Communications Inc. And now the giant Bell Atlantic-TCI alliance has shattered whatever taboo remained on cable-phone cooperation.

HEAD TO HEAD. The cable deals mean the Bells will be running into each other more often—in their own back yards. Bell Atlantic will be able to compete with every other Baby Bell for both phone and video service through its new partnership with TCI, which owns cable systems in almost every state. Although the Bells have competed for years in offering cellular phone service outside their phone territories, the cable alliances will allow them to head-to-head in local wired phone service as well as video. If regulators, such as Federal District Judge Harold E. Green, let the Baby Bells into long-distance, that will be top priority for Ameritech Corp. (AT&T)—that will not only alter the market for AT&T, MCI, and Sprint but could result in Baby Bells selling long-distance services in their siblings' territories.

Bell Atlantic CEO Raymond W. Stata is betting his company on the proposition that the mega-opportunity lies in the long-promised convergence of computer, communications, and entertainment. "Digital convergence," according to its backers, will create markets worth trillions of dollars annually for communications, information, and entertainment services.

But what if they're wrong? "The public may or may not be ready to move into an interactive media world," says BellSouth CEO John L. Clendenen, who so far has gone slow in the video



**JUDGE GREENE LET THE BABY BELLS GO
THE LONG-DISTANCE BUSINESS?**

Another Baby Bell, Pacific Telesis up, is publicly dismissive of the deal. "Instead of doing deals, we have figure out how to get real services to people," says Steven Harris, vice-president for broadband services at the pany's Pacific Bell unit.

RUNS. Still, the Bells may not be to avoid risky investments. If they still, they could see their most profitable businesses taken from them, leaving n with little but marginally profitable ential customers. So-called alternative access providers such as MFS Communications Inc. are already skimming the Bells' big-business customers. se companies allow a business to by the local phone company and indirectly to other corporate campuses as well as to long-distance carriers. Meanwhile, the major cable-TV operators plan to upgrade their systems so can transmit phone calls as well video signals—often aided by their Baby Bell partners. And a new generation of wireless phone service in the ts, called personal communications ices, poses another threat. PCS, h will be offered by many cable anies as well as AT&T and the Bells, provide another way to skim off oest local phone customers through pensive pocket phones.

the nearly 10 years since their ding, the Baby Bells have never be- faced as many threats to their dom- e. "Offensively and defensively, eve- mpany is going to have to position ," says BellSouth's Clendenin. That's the Bell Atlantic-TCI alliance may be the last blockbuster.

i Bart Ziegler in New York, with rt D. Hof in San Francisco and Lois rien in Chicago

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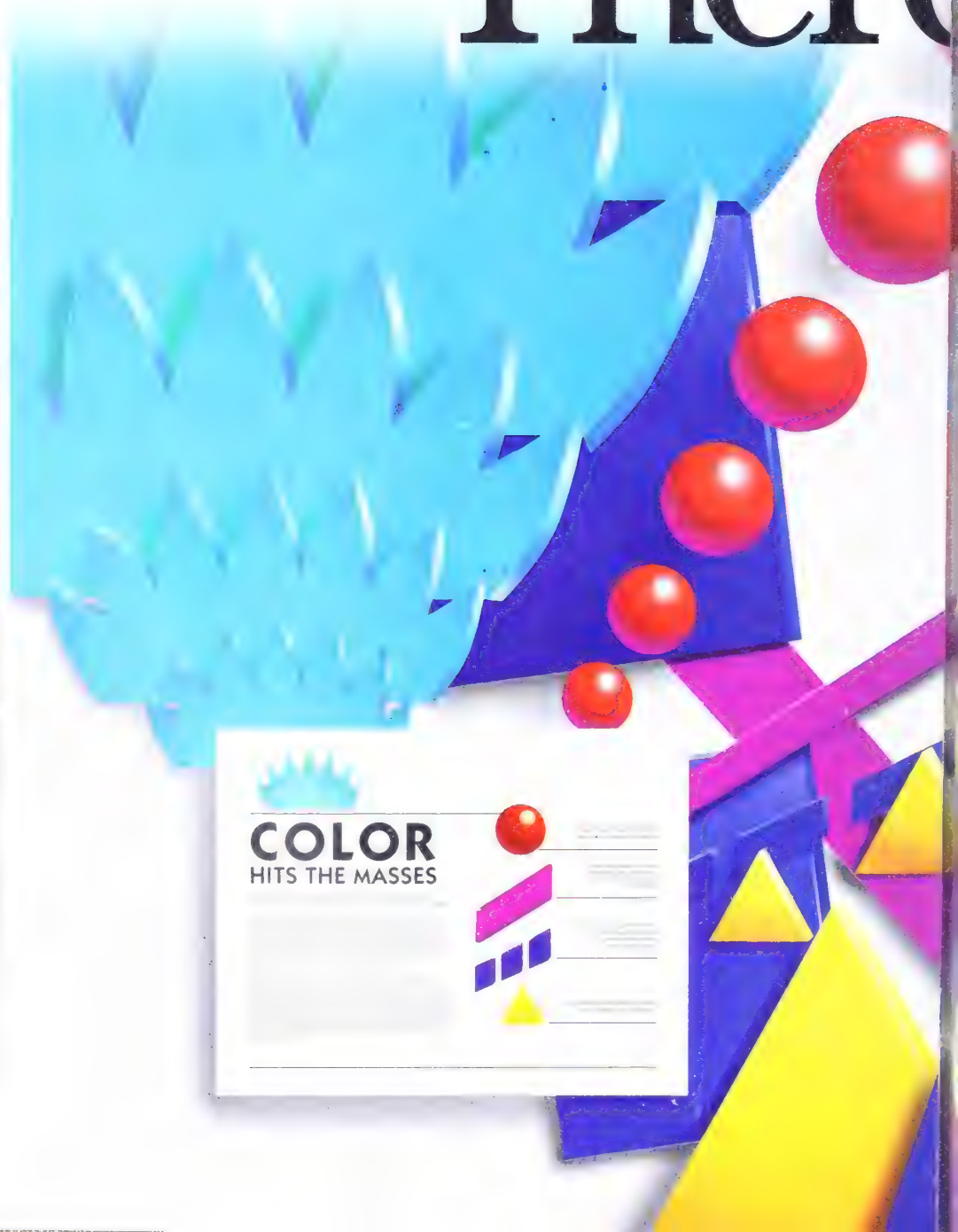
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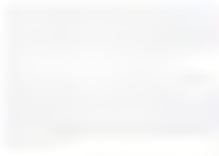
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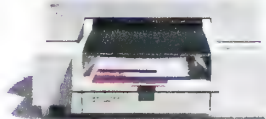


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AMERITECH'S AUDACIOUS GAMBLE

It will open its local phone market if it can enter new fields

The Baby Bells are chasing billion-dollar deals to get in on the merger of communications, entertainment, and media. But don't expect Ameritech Corp. to do anything rash. While the company has been mentioned as a possible partner for either bidder in the Paramount Communications Inc. takeover—a rumor it declines to comment on—Ameritech is officially skeptical of the wishful thinking it sees in the deal frenzy. "It will be 10 or 20 years before they'll know if [the deals] worked," says William L. Weiss. "We want to understand the short- and long-term business impact."

If that sounds like the chief of a conservative, risk-averse Midwest company, that's about half right. Weiss, 64, is the last of the Baby Bell CEOs named when the companies spun out from American Telephone & Telegraph Co. in 1984. And while most regional Bells are focusing on new businesses, Weiss is betting much of Ameritech's future on its past: local phone service. But not the same old slow-growth business other Bells seem intent on diversifying away from. Rather, it's an expanded vision including the data and video services of the information superhighway, wireless communications, and long-distance service in Ameritech's five-state region.

Weiss is so sure of his concept that he has a daring proposal: In return for permission to enter cable TV and long distance, he'll throw open Ameritech's local phone monopoly to competition. That's no small thing: Local phone service—including the access fees paid by long-distance companies—represents 86% of the company's revenues and 94% of its profits, says Steven R. Yanis of Kidder, Peabody & Co.

Still, Weiss likes the odds: He figures he can generate new revenues faster than rivals can eat into the local phone business. "We're going to destroy our business and rebuild it," says Weiss. "We have to." Adds Vice-Chairman Richard

Ameritech

YOUR LINK TO A BETTER LIFE

CHIEF EXECUTIVE WEISS AND HIS CHOSEN SUCCESSOR, RICHARD NOTEBAERT

GIVE A LITTLE, TAKE A LITTLE

WHAT AMERITECH WANTS

- ▶ Lift ban on offering long-distance phone service both within and outside of its local phone territory.
- ▶ Lift ban on providing cable-TV programming within its region.
- ▶ Drop rate-of-return regulation, which uses high business-calling rates to subsidize residential rates. The alternative: flexible pricing that would allow the company to cut prices to match competitors.

IN EXCHANGE, AMERITECH OFFERS TO

- ▶ Unbundle pricing for using pieces of its local phone network. A cable-TV company, for instance, could offer local phone service by using Ameritech's switches.
- ▶ Treat competitors' equipment and networks as equal to its own. That would make it possible, for example, for a competitor to install a switch in Ameritech's network. Also, Ameritech would compensate competitors for completing calls.

H. Brown: "Full competition in the exchange is inevitable."

Ameritech's growth, says Weiss, come from homegrown interactive wireless communications services through offering its network as a pipeline for lots of other suppliers. Part of the company's proposed horse trade with regulators (table) would be to let rivals connect directly into the Ameritech network to complete calls or send data.

video into offices or homes. The assumption is that rivals treated equitably would be less likely to tie up with alternative carriers, such as cable systems. Another big opportunity lies in regional long distance. Some 59% of long-distance calls that begin in Ameritech's region are completed there. That's a \$3.2-billion-a-year business, Ameritech figures. **MISSED OPPORTUNITIES.** By pursuing these markets—and expanding the wireless business with personal communications systems at home and more overseas ventures—"we can be a double-digit growth company," Weiss insists. That would be a welcome change. Ameritech has avoided the costly blunders other Baby Bells have made—in retail or computer stores, for example—but it has also missed some opportunities. "Ameritech is lacking significant exposure to high-growth businesses," says Yanis of Kidder. This year, sales will grow only 5%, to \$11.7 billion, and profits 7.7%, to \$1.45 billion, says Michael A. Elling, an analyst at Oppenheimer & Co.

To get ready for Ameritech's growth spurt, Weiss has ordered a radical restructuring. There will be 11 customer segments targeting small business Y

Pages, cellular, and other markets across the regions—rather than separate phone companies in Illinois, Michigan, Ohio, Wisconsin, and Indiana. These Chicagoans are seeing Illinois Bell boards gradually being repainted to Ameritech. The reorganization could shave up to \$1 billion in costs over the next few years, says President David C. Notebaert.

But the more important goal is better marketing. "We've been a demand business," says Weiss. "We need to become a marketing business" that wooes customers. Agreed, says Frank Diaz, president of suburban Chicago-based Kemper Corp.'s telecommunications unit. "I've been at Kemper for 11 years and have never talked to anyone at Ameritech," says Diaz. The long-distance suppliers call them—and keep cutting rates. Local ones, meanwhile, "have gone up big," says Diaz.

COMPETITION? Ameritech must also survive its deregulation scheme. Bell South Co. has come out against the Ameritech plan, arguing that the Baby Bells have already done enough to open the monopoly by providing interconnection to competitors. Cable operators and long-distance carriers are also opposed. When you have to lease the facilities of a local carrier to compete with them, it's not real competition," says John Hoff, senior vice-president for external affairs for Sprint Corp.

Some opponents in long distance and pay TV propose a phased implementation of the Ameritech plan. Competitors would gain immediate entry into the Ameritech network, but the phone company wouldn't get into long distance and pay TV until the competition gets on its feet. That's the approach Congress took in 1992's Cable Act.

Ameritech opposes that option. It says competitors already thrive. In toll-free calling, Ameritech has gone from 100% to 5% of the market since 1987. And cable bypass companies such as MFS Communications Co., which connect big customers directly to long-distance carriers, have grabbed just 1% of local customers, their clients are among the biggest, most lucrative ones.

However the plan plays out, Weiss must be around to see it. He reaches mandatory retirement age next May and tapped Notebaert to be his successor. Notebaert, 46, rose through Wisconsin Bell Inc., then ran Ameritech's local unit and Indiana Bell Telephone. After forcing out executives who didn't support his plans to embrace competition, in 1993, Weiss elevated Notebaert and Brown to vice-chairmen—joining Louis J. Rutigliano in a triumvirate. It will be up to this team to make Weiss's gamble pay off.

By Lois Therrien in Chicago

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SHOWDOWN IN SILICON ALLEY

Challenges to Intel's chip empire are rapidly multiplying

Intel Corp. is living proof that "uneasy lies the head that wears a crown." Sure, the king of computer chips just reported that third-quarter earnings more than doubled, on a 57% jump in revenues. Plus, PCs built around its new Pentium chip are beginning to hit the market. Things couldn't be better, right? Not exactly. The market lopped almost 10% off Intel's stock because the earnings report included news of a one-point drop in margins. Granted, that's not so bad, considering Intel cut prices up to 29% in the June quarter. But it highlighted a larger concern: the slew of new competitors chasing Intel's near-monopoly in microprocessors for PCs.

That's not a new issue. Intel has been fighting challengers ever since Ad-

now, is aiming at an important niche—low-power chips for notebook computers—and says its 486 clone will be half the price of a comparable Intel product. Dean McCarron, a consultant with market researcher MicroDesign Resources in Sebastopol, Calif., estimates that over the next 18 months, TI could grab 25% of the notebook portion of the market.

LESS GRACE. Intel, however, has its bets down on Pentium. That superfast chip was introduced in the spring, and Intel says at least 100 different companies will unveil Pentium-based PCs in November. Acknowledging the chip's popular potential, IBM on Oct. 18 brought out its first Pentium PC, not as part of its high-end P/S-2 line but under the mass-market ValuePoint brand name.

years and is the favored design for powerful workstations. But it made little headway in the PC market, in part because it was incompatible with software that runs on Intel-based PCs. That may change if Microsoft Corp. succeeds in making its new Windows NT operating system work on RISC-based hardware.

One big test will come with Digital Equipment Corp.'s Alpha, designed to run NT. DEC just unveiled two new versions of Alpha that run 50% faster than its earlier chips. "People on the sidelines right now who are looking at Windows NT and Alpha vs. [Pentium] are starting to become convinced that they do have the performance lead," says Swift, Alpha's marketing manager. Workstation king Sun Microsystems also is chasing Pentium: In October, it announced plans to sell its Sparc chip directly to other computer makers.

Then there's the 600-pound RISC giant lumbering into the market: the PowerPC, backed by the powerful triumvirate of Apple, IBM, and Motorola. The group started shipping its first chips in June and in October announced two more, including the 603, which is aimed at the portable market. Both are one-third the price of equivalent Intel



vanced Micro Devices and Cyrix Corp. began selling knockoffs of Intel microprocessors. Clonemakers have now grabbed some 80% of the 386 market, but Intel basically handed it to them as it moved on to the faster 486, where clones have barely made a dent.

Now, though, there are some potentially more dangerous competitors out there. Texas Instruments Inc., the No. 3 U.S. chipmaker, plans to build and sell an Intel clone, based on Cyrix' design. TI, which has been building and selling Cyrix' chips under license for a year

Still, the competition isn't going to let Intel milk monopoly profits from an unchallenged Pentium for years, as they did with the 386 and 486. Cyrix unveiled the architecture for its Pentium-compatible M1 chip on Oct. 19 and plans to start shipping sometime next year. That gives Intel only a year's grace, down from three years for the 486.

Pentium also faces a growing threat from chips based on the reduced instruction-set computer (RISC) architecture, which promises cheaper, faster microprocessors. RISC has been around for

tiums. True, as of now, no PC maker other than IBM and Apple Computers plan to use the PowerPC. But that may change if the new chip can run today's PC software. IBM says it will be positioned under OS/2, slated for the PowerPC year, and Motorola Corp. is said working on adapting NT for the chip. They can deliver on their threat, and from now, margin pressures could be just one of Intel's worries.

By Catherine Arnst in New York, Peter Burrows in Dallas and other reporters

SURVIVING THE PEACE

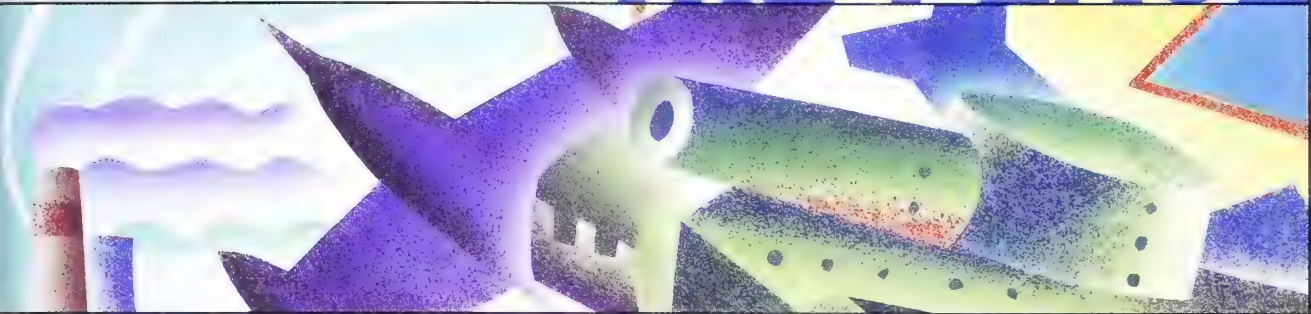


Illustration by Nikolai Punin. As seen in BusinessWeek, January 13, 1992 Issue.

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Surviving the Peace: The Conversion and Realignment of the Defense Industry

Date: Tuesday, November 30 and Wednesday, December 1, 1993
Place: The Regent Beverly Wilshire Hotel, Los Angeles, California

- Speakers:
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 - Thomas Gunn, V.P., Strategic Market Development, McDonnell Douglas Corp.
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Economics

POLICY

WHY THE MIDDLE CLASS IS STILL STUCK

Clinton's budget plan won't help, and health reform may hurt

As Bill Clinton fought to become the first Democratic President elected since 1976, he offered a pledge. His Administration would dedicate itself to helping the "forgotten middle class" and the working poor. His overarching plan was to reverse the priorities of 12 years of Republican rule, when "the driving idea behind American economic policy has been cutting taxes on the richest individuals and corporations and hoping that their new wealth would 'trickle down' to the rest of us." And unlike the Democrats of the '70s, Clinton would not try to redistribute income from the middle class to the poor.

As the Administration bounces through its first frenetic year, the middle class is learning how Clintonomics works in practice. The President has indeed helped the poor—by taking a big tax bite out of wealthy individuals. But Clinton abandoned his promise of a middle-class tax cut almost as soon as he took office. The flood of tax and spending changes in his budget will not help middle-income families. And the coming upheaval in health care could take money from the middle class, especially those workers who enjoy rich employer-paid benefits. Combined, the budget and health-care programs will end up redistributing income from the wealthy and the middle class to the poor.

HEAVING AND PULLING. The Clintonites, sensitive to the grief the "redistributionist" label has caused Democrats, swear they have no interest in returning to the economics of the 1970s. "The Administration is just trying to correct the excesses of the past by turning first to those who had the biggest party as the budget deficit was being created," says

Treasury Under Secretary Lawrence Summers.

The income shift in Clinton's five-year budget plan is unambiguous. The big winners are low-income working families, the beneficiaries of a \$20.8 billion increase in the earned-income tax credit. By 1996, the EITC will provide cash payments to families making up to \$27,000 a year—not bad when you consider

Clinton's salary as a Kansas governor will never more than \$350,000.

By contrast, the wealthy will pay the lion's share of the \$241 billion tax hike. The wealthiest 1% are socked as the top income-tax rate climbs from 31% to 39.6% and comes over \$250,000 a year, according to calculations by the Joint Committee on Taxation, taxpayers with incomes over \$200,000, including employer benefits—will pay an average of almost \$200,000 more in taxes (see page 150). Perks are a hit, too, with deductions for dues gone and deductions for business meals further restricted. "I can think of a more aggressive increase in taxes since World War II," says Rudolph G. Peltz, former director of the Congressional Budget Office.

But all this heaving and pulling leaves the middle class relatively untouched. After Congress dispatched the President's broad energy tax, average working stiff were left paying just 4.3¢ a gallon more in higher gasoline taxes. Relatively high-income retirees were hit with a modest increase in the taxes on their Social Security benefits. When the changes are added up, the average taxpayer earning \$30,000 to \$40,000 a year will pay just \$65 more in taxes each year. And even those earning \$75,000

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\$100,000 will pay only an additional \$400, or about 0.5% of their income.

So why do polls show that many middle-class taxpayers still feel cheated? For one thing, they haven't forgotten that Clinton wshed on the tax break he promised. And there is the nagging fear that the still-yawning budget deficit and the ambitious health-reform plan will mean more taxes down the road. Clinton, says political analyst Kevin P. Phillips, has "created a significant amount of disbelief on what he says on tax and fiscal policies." Instead of helping the broad middle class, Phillips argues, Clinton has narrowed his focus to families earning less than \$50,000, around the median urban income: "He's completely written off the upper-middle class, who will be most hurt by his medical-care policies," says Phillips.

It may take middle-class workers a long time to sort out their gains and losses under the Clinton health-care plan. Even the experts are having a tough time assessing the flows, a problem exacerbated by the lack of detail made public so far. "This is going to play out all over the map," says Katherine Swartz, a professor at the Harvard School of Public Health. For example, middle-class wage-earners would lose access to flexible spending accounts, a current tax break that allows many of them to cover insurance co-payments and deductibles from pretax income.

"HUGE SUBSIDY." And the marriage-tax penalty—the bane of upper-middle-class couples—will increase for two-earner families. A working couple now making use of one spouse's health-insurance plan will have to pay more, since both workers will be required to obtain insurance for the entire family. A family with one wage earner will pay less.

There also could be a big wealth transfer from middle-class workers to retired people between the ages of 55 and 65, who would get government-paid health insurance under Clinton's plan. Many of these early retirees are not poor—rather they are people who can

afford to stop working because they've put away a sizable nest egg. "It's a huge subsidy to people over 55 and under 65, who tend to be better off and to own their own homes," says economist Mickey D. Levy of NationsBanc Capital Markets Inc. All seniors, no matter what their income, would also gain from two huge new programs: prescription-drug reimbursement and home health care.

retail stores will be subsidizing coal miners and football players."

Still, Clinton's health plan should benefit low-paid workers, especially those without employer-paid health care. They'll be provided with 80% of the cost of their health insurance no matter where they work. But the sin taxes that will pay for part of the health-care program will likely fall more heavily on

poor. And many economists fear that higher costs to employers will mean more low-wage jobs will vanish. If the pessimists are right, the job losses caused by the health-care plan could be big enough to cancel many of its benefits to the working class.

NEW MANTRA. Administration economists deny such dire consequences. They point out, for example, that the subsidy for early retirement may persuade as many as 600,000 workers to lay down their tools and turn off their computers, making room for younger employees. Besides, they say, it's a mistake to analyze the health plan purely in terms of monetary winners and losers. "It's not just the additional benefits, but the security for the middle class that they won't lose health insurance if they lose their job or change jobs," says Council of Economic Advisors Chairwoman Laura D'Andrea Tyson.

"Security" has been the new economic mantra of the Clintonites, with "fairness" rhetoric has preceded. That's probably a good thing for the President, since fairness has been a tough sell in recent years. During the Reagan years, the rich got richer, the poor got poorer, and the middle class stagnated. But middle-class voters

didn't seem to mind until the economy soured during George Bush's Presidency.

Indeed, moving income around to substitute for generating more growth. And in the end, no effort to promote "fairness" in the tax code or in the health-care program will be as important, politically or economically, as Clinton's success in getting the economy moving briskly once again.

By Paul Magnusson in Washington

HOW THE 1993 BUDGET ACT HELPS THE POOR AND HITS THE WEALTHY...



...WHILE CLINTON'S HEALTH-CARE PROPOSAL TAKES A BITE OUT OF THE MIDDLE CLASS

WHAT THE MIDDLE CLASS LOSES:

- ▶ Companies encouraged to cut generous health plans
- ▶ Flexible spending accounts eliminated, raising taxes
- ▶ Insurance premiums raised for dual-wage-earner couples
- ▶ Dental and vision benefits no longer covered for many people

WHAT THE MIDDLE CLASS GAINS:

- ▶ New long-term care and prescription benefits provided for the elderly regardless of income
- ▶ Early retirees covered by government-paid insurance

WHAT THE POOR AND WORKING CLASS GAIN:

- ▶ Unemployed or otherwise uninsured Americans covered by government-paid premiums
- ▶ Health insurance subsidized by government for low-wage and part-time workers at small businesses
- ▶ Improved benefits mandated for many low-wage workers

DATA: JOINT COMMITTEE ON TAXATION, BUSINESS WEEK

Some of the biggest effects of health reform cut across income classes. Where insurance premiums are now mainly determined by the medical history of a company's workers, the Clinton proposal requires plans to base premiums on community ratings. "This increases transfers from the healthy to the nonhealthy, from those in safe jobs to those in risky jobs," says economist C. Eugene Steuerle of the Urban Institute. "Workers in



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BASEBALL

KANSAS CITY GOES FOR A NEW KIND OF DOUBLE PLAY

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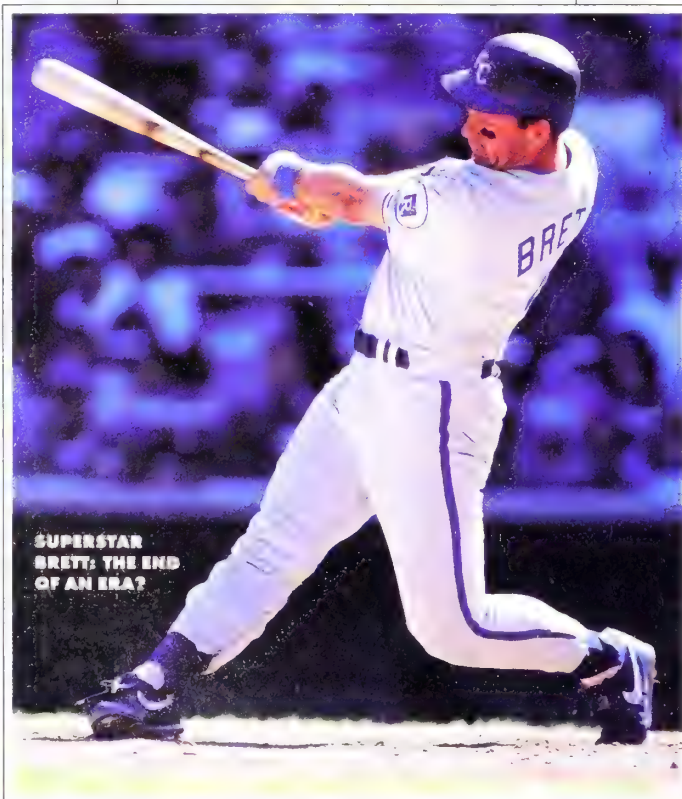
As the revelry faded, 37,000 Kansas City Royals fans filed into a chilly September night and an uncertain future for their team. The farewell to George Brett ended a two-decade love affair between the town and a superstar who led the Royals to six division titles and a World Series championship. Only one figure looms larger in the history of the franchise: Ewing M. Kauffman, the pharmaceuticals magnate and founder. Less than two months before Brett retired, Kauffman lost a long battle with cancer.

Finding a successor to Brett will be tough enough. Replacing Kauffman's money-is-no-object passion in one of Major League Baseball's smallest and least lucrative markets is another matter entirely. Before he died, Kauffman was unable to find a buyer committed to keeping the team in Kansas City. So, led by longtime Kauffman pal David D. Glass, CEO of Wal-Mart Stores Inc., civic boosters and a network of Kauffman friends are working on a complex scheme to provide stopgap financing. Equally tricky, they're trying to remake the Royals into a scrappy, low-budget club that will attract a buyer.

ALL-STARS. The effort to support a team that has lost money for 20 of its 25 years could bring to a head the growing split between baseball's big-market haves with their lavish local TV contracts and the small-market have-nots. That divide is sure to widen: A new national TV contract is expected to wipe as much as \$8 million a year from each team's revenue. "The pressures on small markets are enormous," says Allan "Bud" Selig, acting baseball commissioner and president of the Milwaukee Brewers. "Baseball's ability to establish stable [small markets] is essential for its survival."

The centerpiece of the survival plan

Kauffman unveiled months before he died hinges on temporarily converting the team into a charity. A group of five limited partners—led by Glass, new CEO of the Royals, and Michael E. Herman, team president—would put up a total of \$1 million of their own money and manage the club. Local investors would raise \$50 million and turn it over to the charitable Greater Kansas City Community Foundation. Income from the contribu-



SUPERSTAR
BRETT: THE END
OF AN ERA?

tions, estimated at \$3 million a year, together with funds from Kauffman's own foundation, would cover operating losses until the team breaks into the black—perhaps within three years—and attracts a buyer. Then, those putting up the \$50 million would be paid back, and the Community Foundation would use the rest to fund charities.

Already, \$45 million has been pledged by an all-star roster of boosters, including the Hall Family Foundations, linked to Hallmark Cards, Sprint, Capital

Cities/ABC, Boatmen's Bancshares, H&R Block Foundation, and Kansas Southern. Even though the Royals put up \$14 million in 1993 operating loss on \$52 million in revenue, "it's a business decision" to put \$3 million toward the fund, insists Paul H. Herman, chairman of Kansas City Southern Industries Inc. He fears the loss of Royals "will turn us into a bush-league town."

BARGAIN BASEMENT. Yet all of the intentions may be called out by the which is wary of turning a baseball team into a charity. Should that happen, powerful pols are prepared to introduce bill in Congress that would grant Royals special tax status. If both strike out, Glass and Herman are likely to encounter pressure from trustees Kauffman's foundation to unload the team, regardless of location.

Meanwhile, the new Royals will bargain-basement squad ready, Glass and Herman reversing Kauffman's lavish spending and applying his proposed business strategy. Splurging on free agents, the payroll ballooning to \$40 million this year from \$25 million five years ago. Kauffman aims to slash the payroll to about \$31 million in 1996 and recast the team around such budding stars as Kevin Appier, while relying on a revitalized farm system for hungry—and cheap talent. The danger is that Kansas City will become another San Diego, which unloaded high-priced players only to turn off fans and deepen the financial gap. Unlike the Padres, though, the Royals are trying tactics to fire up the fan base: upgrading food service, placing artificial turf on grass, and rearranging music. "We will make the entertaining and exciting promises Glass.

Great. But can he keep the team in town? Too early to tell, of course. Baseball ownership has always been driven at least as much by emotion as financial payback. But for a new owner to step up to the plate in Kansas City, the situation will have to shift. Even so, described "baseball nut" Glass, now best hope to lead any permanent ownership group, will be expecting financial equivalent of some doubles, triples, if not towering home runs.

By Richard A. Melcher in Kansas

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EDITED BY AMY DUNKIN

Investing

FIGURING RISK: IT'S NOT SO SCARY

Let's face it, risk is a four-letter word. When it comes to investing, you would rather not hear about it. That's why so much money sits in certificates of deposit or Treasury bills linked to that reassuring phrase "backed by the full faith and credit of the U.S. government." Uncle Sam can keep your investment from credit risk, but what about inflation risk? While the "treacherous" stock market earned 15.2% over the past year, your "safe" 2.2% T-bill return has already been wiped out by 3% inflation.

In the aftermath of the freewheeling 1980s, a long-term view is increasingly popular with investors, especially those with sizable chunks of their assets in individual retirement accounts and 401(k)s. It's also changing the way investors think of risk. No more is it enough to say that stocks are riskier than savings accounts or corporate bonds are more dangerous than Treasuries. With inflation in lockstep with so-called conservative investments, you may be forced to become more comfortable with the concept of risk to get ahead. As such, investors can benefit from knowing some of the objective measures of risk that analysts use. Although such terms as alpha, beta, and standard deviation may be intimidating, they are based on common-sense principles that can help guide your investment choices. "Return is in the hands of

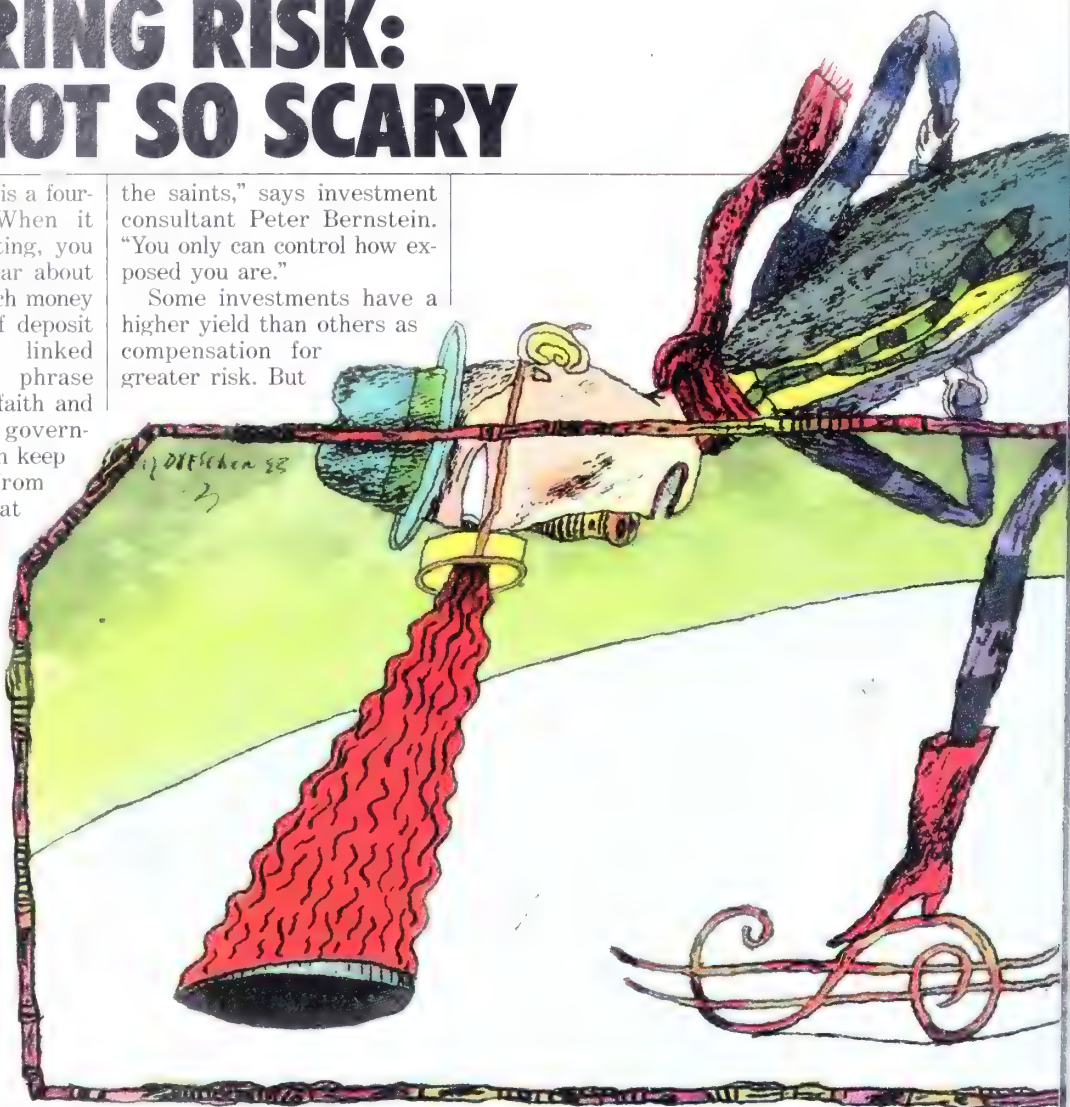
the saints," says investment consultant Peter Bernstein. "You only can control how exposed you are."

Some investments have a higher yield than others as compensation for greater risk. But

there are ways to minimize your risk without sacrificing higher returns. For example, over time the risk of owning stocks drops. In any one year, the Standard & Poor's 500-stock index returns are volatile, but over many years, good and bad swings tend to cancel each other out and lower the risk, says Mark Riepe, an analyst at Ibbotson Associates Inc., a Chicago-based financial consulting firm. If you hold stocks for 20 years, you have as good a shot as any at almost eliminating the risk: From 1926 to 1992, there was no 20-year period in which the market lost money.

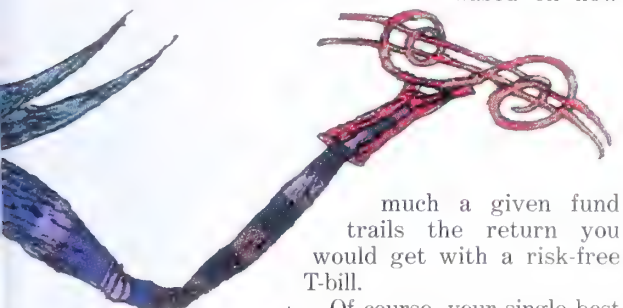
But even long term, different assets carry different kinds of risk. In addition, each asset carries its own brand of risk. Corporate bonds pay well because they expose you to credit risk, the threat a company will fail to repay its bonds. Meanwhile, long-term government bonds have no credit risk because they're backed by the people who print money. But they don't eliminate inflation risk. Since your money is tied up at a fixed interest rate, your real returns will fall if rates rise. Short-term government bonds have no credit risk and mature fast enough to be quickly

reinvested at higher rates. But if rates fall, you only get the benefit of a higher rate for a short time before the bond matures and you must reinvest at a lower rate. **NEW MATH.** When it comes to stocks, risk tolerance is a personal choice, but actually can be measured. Comprehensive investment resources such as the Value Line Composite Index for stocks and Morningstar Inc. for mutual funds evaluate risk using complex statistical formulas such as alpha and beta. There's no need for the average investor to understand the math, but you can benefit from knowing



at these numbers mean. Beta, which measures the utility of stocks against the S&P 500, is the most widely used assessment of risk. A beta of 1 means a given stock is as volatile as the S&P. So if

afraid of making money," says Morningstar analyst Amy Arnott. So to give a more accurate picture, in addition to alpha and beta, Morningstar also provides a range of rankings from "low" to "high" based on how



much a given fund trails the return you would get with a risk-free T-bill.

re a moderate to conservative investor, you'll want investments with betas of less than 1.

SHARPE'S SWORD. Alpha gauges how much better than expected a stock performs given its risk. Alphas of 0 and above mean you're being adequately compensated for your risk. A similar measure is the Sharpe ratio. The bigger the ratio, the better. But financial analyst and Nobel laureate William Sharpe, for whom the ratio is named, cautions investors to use it only to compare similar kinds of assets—say, corporate bonds with other corporate bonds. Moreover, he says, the high numbers aren't sole predictors of high returns, but low numbers indicate funds you should avoid. Sharpe's more universal gauge of risk is standard deviation. It reveals how much the returns of an asset vacillate around a monthly average return—the higher the number, the more volatile. You can use Sharpe's to compare different kinds of assets such as stocks and bonds. For example, from 1970 to 1992, small-cap stocks had a high standard deviation of 30. By contrast, the S&P 500, long-term corporate bonds, 8.5, Treasury bills, 3.3.

These measures have a flaw: They don't distinguish between rising and falling markets. An asset's volatility can come from a surge in price. "I don't know too many investors who are

Of course, your single best weapon against all kinds of risk is diversification. By spreading your money around, you're not tied to the fickleness of a given market or industry. Most mutual funds have no credit risk because they invest in so many different companies; a few failures have little impact. Sharpe also recommends combining big companies with midsize and small ones, and wedding growth stocks with value stocks, because one group typically does well when the other doesn't.

Correlation, in portfolio-

manager speak, helps you to diversify because it describes how closely two investments track each other. If they move in tandem, they're likely to suffer from the same bad news. So you want to combine assets with low correlation. For example, when inflation rises, commodities soar and equities sink. Low correlations let you combine assets which each have high standard deviations into a portfolio with lower risk. "A single stock in the S&P 500 probably has a standard deviation of 35-40," observes Ibbotson's Riepe. "Yet the S&P 500 has a standard deviation of 20.6."

OUT OF STEP. Foreign stocks and bonds are a particularly good—and underutilized—ballast for American investors because they have little correlation with the domestic market. "You gain exposure to markets of other countries, which aren't necessarily in sync with the U.S.," says Aetna Mutual Funds' Christian Thwaites.

But foreign stocks carry currency risk. If you buy shares in Japanese companies, for example, and the dollar strengthens against the yen,

you can lose money independent of what the stock does. This scares many people away from global investing. But some mutual-fund managers eliminate currency risk by making agreements to buy or sell a foreign currency at a fixed price over a certain period, says John Pasco, chairman of Global World funds. Then, the stocks in the fund move based on company and market fundamentals.

All kinds of risk can be eliminated by similar hedging strategies using futures, options, and more recently, exotic derivatives, says Bill Jaetues, a chief investment officer at Martingale Asset Management in Boston. But leave them to the professionals, he warns. "They should have labels on them, 'Do not attempt this at home.'"

More unnerving perhaps for individual investors is that money managers are using some risky new derivatives to boost returns in conservative short-term bond funds. Instruments such as interest-only strips, which pay only mortgage interest, or inverse floaters, which pay more when rates fall than when they rise, can be quite unpredictable and damaging. So you might want to avoid short-term bond funds offering more than 3%-4%. "If it sounds too good to be true," it's a tipoff, says Jaetues.

Individual investors can also make use of software to gauge risk. Programs such as Morningstar Mutual Funds on Disk, a CD-ROM program (800 876-5005), and Investability Mutual Fund Database (502 722-5700) enable investors to compare alphas, betas, and standard deviations of different fund groups. For a comprehensive review of investing programs, order *Computerized Investing* from the American Association of Individual Investors (312 280-0170).

As programs become more sophisticated, they include more and more data, but they will never take all the risk out of investing. Nothing ventured is still nothing gained. *Pam Black*

THE MANY FACES OF RISK

MARKET RISK Your portfolio can lose money because of economic or other swings in the stock market as a whole.

INFLATION RISK Inflation affects bonds much more than stocks. It may wipe out your returns if you invest in "safe" vehicles, such as Treasury bills. Yet, grabbing the higher yield of long-term bonds means your return will falter if rates rise.

LIQUIDITY RISK Such investments as small-cap stocks, munis, and corporate bonds, tend to be illiquid or harder to resell in a pinch.

CREDIT RISK The company you own stock in can go under or fail to repay the bond principal and interest it owes you.

INTEREST-RATE RISK The value of bonds—and sometimes stocks—moves in inverse relation to interest rates. If rates rise, and you have to cash out, you lose.

REINVESTMENT RISK As rates drop, companies refinance by paying off bonds before maturity, forcing you to reinvest at lower rates.

PREPAYMENT RISK This risk for mortgage-backed securities is similar to reinvestment risk. When rates drop and people refinance their mortgages, you lose an income stream and the interest on it.

CURRENCY RISK If you're heavily invested in foreign stocks, your portfolio can lose value if the dollar gets stronger.

STRUCTURAL RISK Risky derivatives, such as futures and options, can create losses in the underlying investment.

Smart Money

INSURING HOME AND OFFICE WHEN HOME IS THE OFFICE

Property and casualty insurers are finally realizing that the distinction between personal and professional life is not as clear as it once was. With at least 12 million people working at home, carriers are developing packaged insurance that covers home and business when they are in the same place. The policies eliminate overlaps and are cheaper and more convenient than buying separate home and office coverage. "It makes sense just to bundle it all together," says Paul Edwards, co-author of *Working From Home*.

Last August, Continental Insurance became the first carrier to tie commercial

If you're satisfied with your homeowner's policy but want additional protection for your business, RLI in Peoria, Ill., offers a cheaper commercial policy for people who work at home. RLI's In-Home Business Policy starts at \$150 a year (table).

EASY RIDERS. These products are designed for white-collar at-home types, not small manufacturers or wholesalers who maintain inventory in the basement, says Sean Mooney, an economist at the Insurance Information Institute, a trade group. Carriers exclude some professions and do not provide coverage for more than a home office anyway.

Standard homeowner's policies cover \$2,500 in business property, but you can often attach inexpensive riders to boost coverage to up to \$10,000 for a home business that is essentially a "hobby," says Jerry Parsons, spokesperson for State Farm Fire & Casualty in Bloomington, Ill. State Farm's rider costs

A PEEK AT TWO POLICIES

Coverage for	Continental*	RLI
BUSINESS PROPERTY	\$225,000 on site	\$5,000
	\$10,000 off site	\$1,000
LIABILITY	\$500,000	\$300,000
LOSS OF INCOME PROTECTION	Up to one year	Up to one year
COST	\$175	\$150

*MUST BE PURCHASED WITH LINK PLUS HOMEOWNER'S POLICY
DATA: CONTINENTAL INSURANCE CO., RLI CORP

coverage to a homeowner's policy. Continental's Home-Work plan applies the same amount of personal-property and liability coverage on your home to your business and covers up to a year of lost income and expenses if business is interrupted by fire or hurricane. The yearly premium to extend about \$225,000 in total property and \$500,000 in liability coverage from your homeowner's policy to your business is \$175; Continental's separate commercial insurance starts at \$300 a year. Aetna Life & Casualty in Hartford and Chicago's CNA Insurance plan similar packaged policies soon.

\$14 to \$30 a year, but works best for, say, furnishings in a room where you provide child care, he says. It insures computers for only \$1,000.

Without some kind of commercial insurance for business liabilities, "the critical thing to know is that you are not covered—zero, zilch," says Mooney. That means if your dog bites someone delivering a package to your office, you've got to foot the legal bills yourself. But with a new packaged plan, you'll get help with legal fees whether the hapless deliveryman was bringing new software for your business or presents for the kids. *Amey Stone*



NO MORE SQUINTING: LCD-STYLE MODELS FROM SHARP AND SONY THE SHARP'S ROTATING LENS LETS YOU FILM YOURSELF

Electronics

CAMCORDERS WITH THE BIG PICTURE

Just moments after little Johnny kicks the deciding goal in his soccer match, he and his teammates gather to admire the game-winner on instant replay. The on-the-spot playback is possible because Johnny's parents recorded the action on Sony's Handycam Snap!, an 8mm camcorder with a 3-inch liquid-crystal-display color screen that lets the unit double as a portable videocassette player. Sony's \$1,200 camcorder follows the launch of three Sharp Viewcam models (\$1,200 to \$2,199) that also employ flat-panel, LCD screens.

The small monitors on the Sony and Sharp cameras replace viewfinders. Instead of squinting—or bumping your glasses—into an eyepiece, you hold the camcorders in front of you while shooting. "It's the first time you are not looking at the world through a peephole," says Robert Gerson, editor-in-chief of *Twice*, an industry publication.

HEADACHE-FREE. The monitors are about all the LCD camcorders have in common. Sony's 1.4-pound Snap! is the camcorder equivalent of a point-and-shoot camera, a gizmo that will appeal to the kind of people who can't program

their VCRs. You won't find zoom lens; a simple switch lets you go back and forth between fixed-focused 3x photo and wide-angle lens. Lighting and color settings are automatic.

Snap! resembles an old-fashioned Brownie and is easily manipulated with one hand. The button that lets you switch between record and standby is in an unfriendly position for small paws. The LCD monitor can be tilted 60 degrees and comes with a sunshade to shield out glare. A built-in speaker lets you hear what you recorded during playback.

NO SLOUCH. Sharp's Viewcam models are more fully featured camcorders. The \$1,200, 1.9-pound VL-E30U comes with a standard 8x power zoom lens that gives users the option to focus manually. You can select shooting mode from an on-screen scene menu to be your surroundings. In "sports" mode, a speedy shutter captures hoopsters on a break. The Viewcam also has a built-in speaker and plays prerecorded 8mm tapes.

Sharp's LCD screen and sections can rotate up to 180 degrees. At a low angle, you can record a crawling inchworm while gazing at the 3-inch (a 4-inch display on the Hi-8mm VL-HL100U). You need be, you may overlook a crowd blocking the view of a parade. Rotating the lens 180 degrees and you can admire your own visage on the screen. More may please. *Edward*



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FLORSHEIM

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There's More To Florsheim.

Rather than have a beer with his Wall Street colleagues after work, Art Steinmetz goes home to brew his own. Steinmetz, who manages Oppenheimer's \$3.5 billion Strategic Income Fund, has turned the family kitchen into a brewery where he whips up pale ales, pilsners, and a zesty German wheat beer that recently placed second in a Pittsburgh contest sponsored by the American Homebrewers Assn. (AHA).

Steinmetz is among the growing number of beer enthusiasts who are reviving an intoxicating tradition that dates back to the Pilgrims and peaked during Prohibition, when scofflaw tipplers relied on homemade beer and bathtub gin. "It's a relaxing, tinkering-in-the-workshop type of hobby, and the bonus is the freshest beer you'll ever drink," he says.

DRY STATES. Unlike their Prohibition-era counterparts, today's home brewers seek variety and flavor they say aren't available in a store-bought six-pack. "A lot of people try home brewing because they want to duplicate a stout they were served in a pub in Dublin or a German beer they had in Munich," says Lori Tullberg-Kelly, a spokeswoman for the AHA, part of the Association of Brewers based in Boulder, Colo. The group estimates the hobby has been growing the past three years at an annual 25% clip in the U.S., penetrating 1 million homes. Home brewing has been legal in most states since 1979; Alabama, Arkansas, Missouri, and Utah are among the few states that don't allow it.

Setting up your own brewery doesn't cost much. Basic equipment—an eight-gallon kettle, a plastic fermentation pail, a bottlecapper, and an apparatus to cool the beverage

Potables

WANT A BETTER BEER? BREW IT YOURSELF

age during the brewing process—costs about \$100 through mail order or at some 1,200 retailers. You can find bottles at little or no cost from recycling plants or local pubs. Fancier home brewing can swell the tab; a tap for your home-spun suds runs \$200.

Joy of Homebrewing, by Charlie Papazian (\$11, Avon Books, 212 261-6882), *The Complete Handbook of Home Brewing*, by Dave Miller (\$11.95, Storey Communications, 800 441-5700), and *Better Beer & How To Brew It* by M.R. Reese (\$9.95, Storey)



Many stores offer classes for neophytes. The AHA (\$29 a year for membership, 303 447-0816) can help folks locate these shops. The organization also publishes *Zymurgy* magazine, which provides recipes and notices of contests. *The New Complete*

are other fine sources.

The basic ingredients in home beer are malted barley, a processed grain that provides color and flavor; hops, a bitter dried herb that acts as a natural preservative; and yeast, which facilitates fermentation. Experts advise

first-time brewers to buy of premeasured ingredients which cost about \$25 in a five-gallon batch.

The initial brewing process takes about four hours. Steps vary, but a basic pale involves boiling water, adding malted barley hops. After about an hour the mixture is poured into plastic fermentation pails quickly cooled, with a water circulating through an apparatus of coiled copper tubing that fits into the pail. When the temperature cools to about 70°F, yeast is added, which chemically transfers the sugar contained in the barley into alcohol during fermentation. The unfermented beer is sealed with a lid that lets carbon dioxide, a byproduct of the process, escape. Fermentation takes about two weeks, after which the beer is bottled and stored for at least more weeks in a dark basement or closet, allowing for carbonization. The brewing equipment must be squeaky clean to prevent bacteria from ruining the batch.

FRUITFUL. Many home brewers try to concoct unusual brews to impress family and friends. The 24 basic styles of beer include pilsner, a German-style blonde beer; soot, a smooth black ale; and ommunder, a light-bodied ale. The beers contain anywhere from 10% to 12% alcohol. Alby T. Zia, a mutual funds salesman and co-partner at The Brewery, an equipment store in Bogota, N.J., says his customers are brewing pink ale to serve at Thanksgiving. Also popular are beers made with blueberries, raspberries, and mango, he says.

Tarzia and many other home brewers drink their creations sparingly. "I'm not the type to sit around and guzzle beer," he says. "It takes too long to make it." Susan Schreder

Worth Noting

■ **FEMME FUND.** The Women's Equity Mutual Fund is the first fund devoted exclusively to companies that promote

practices beneficial to women in the workplace. Among the investment criteria: promoting women to senior executive positions and offering employee benefits that address work-and-family concerns. The

minimum investment in the no-load fund is \$2,500. For more information, call 800 424-2295.

■ **CAR REPAIR.** Think you've been ripped off by an auto mechanic? The Federal Trade

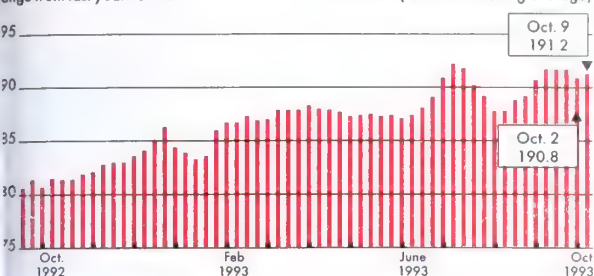
Commission's free brochure *Taking the Scare Out of Car Repair*, includes a trouble shooter guide and pointers on selecting a repair shop and learning your consumer rights. Call 202 326-2222.

BusinessWeek Index

PRODUCTION

Change from last week: 0.2%
Change from last year: 5.4%

1967=100 (four-week moving average)

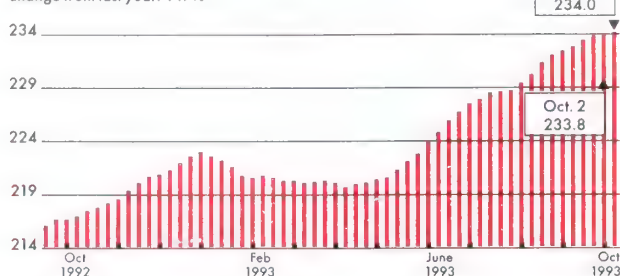


The production index increased during the week ended Oct. 9, led by a rise in freight traffic. On a seasonally adjusted basis, output of steel, crude-oil refining, autos, lumber, and electric power also increased, while auto production was down. Production levels of coal, paperboard, and paper all were unchanged from a week ago. Before calculation of the four-week moving average, the index increased to 191.7, from 190.3.

BW production index copyright 1993 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: 7.9%



The leading index inched higher during the week ended Oct. 9. A rebound in the growth rates of real estate loans and M2 led the week's gain, while signs of slower growth in the economy could be seen in falling stock prices, higher bond yields, and declining materials prices. Data on business failures were unavailable. Before calculation of the four-week moving average, the index rose to 235.3, from 233.8 the previous week.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
IRON (10/16) thous. of net tons	1,883	1,823#	12.8
STEEL (10/16) units	122,096	118,158r#	7.6
CRUDE OIL (10/16) units	110,360	109,773r#	26.7
ELECTRIC POWER (10/16) millions of kilowatt-hours	54,395	55,234#	1.1
CRUDE-OIL REFINING (10/16) thous. of bbl./day	13,926	13,841#	3.4
IRON (10/9) thous. of net tons	18,808#	18,790	-1.2
PAPERBOARD (10/9) thous. of tons	814.1#	825.4r	4.2
PAPER (10/9) thous. of tons	797.0#	793.0r	3.8
COAL (10/9) millions of ft.	479.6#	476.1	2.7
FREIGHT (10/9) billions of ton-miles	22.7#	21.7	4.6

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFPA, Association of American Railroads

CURRENCY EXCHANGE

	Latest week	Week ago	Year ago
U.S. DOLLAR (10/20)	107	106	121
GERMAN MARK (10/20)	1.65	1.60	1.50
BRITISH POUND (10/20)	1.49	1.52	1.63
FRANC (10/20)	5.83	5.65	5.09
INDIAN DOLLAR (10/20)	1.32	1.33	1.25
SWISS FRANC (10/20)	1.45	1.41	1.34
CANADIAN DOLLAR (10/20)	3.111	3.114	3.106

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
WHEAT (10/20) \$/bushel	372.500	366.400	8.4
SCRAP (10/19) #1 heavy, \$/ton	131.50	129.00	46.9
STUFFS (10/19) index, 1967=100	214.7	212.3	9.3
COFFEE (10/16) c/lb.	85.6	85.5	-18.1
CINNAMON (10/16) c/lb.	52.0	51.9	-3.7
TEA (10/16) #2 hard, \$/bu.	3.44	3.39	-4.7
CORN (10/16) strict low middling 1-1/16 in., c/lb.	54.88	55.07	8.4

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Market, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/15) S&P 500	463.36	460.55	13.2
CORPORATE BOND YIELD, Aaa (10/15)	6.62%	6.72%	-16.8
INDUSTRIAL MATERIALS PRICES (10/15)	94.3	93.8	-2.7
BUSINESS FAILURES (10/8)	NA	355	NA
REAL ESTATE LOANS (10/6) billions	\$404.8	\$403.1	0.0
MONEY SUPPLY, M2 (10/4) billions	\$3,505.3	\$3,501.1r	1.5
INITIAL CLAIMS, UNEMPLOYMENT (10/2) thous.	321	329	-16.2

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (Sept.) total index	111.0	110.9r	4.5
CAPACITY UTILIZATION (Sept.)	81.6%	81.6%	2.9
CONSUMER PRICE INDEX (Sept.)	144.9	144.9	2.7
PRODUCER PRICE INDEX (Sept.) finished goods	124.5	124.3	0.5

Sources: Federal Reserve Board, BLS

MONEY MARKET INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/4)	\$1,114.0	\$1,111.9r	11.4
BANKS' BUSINESS LOANS (10/6)	270.8	271.3r	-2.9
FREE RESERVES (10/13)	669	991r	-27.5
NONFINANCIAL COMMERCIAL PAPER (10/6)	161.5	156.5	11.2

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (10/19)	2.94%	3.07%	3.05%
PRIME (10/20)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (10/19)	3.24	3.26	3.42
CERTIFICATES OF DEPOSIT 3-MONTH (10/20)	3.23	3.22	3.38
EURODOLLAR 3-MONTH (10/15)	3.25	3.25r	3.44

Sources: Federal Reserve Board, First Boston

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Iron = Iron Institute of America; Steel = American Iron & Steel Institute; Paper = Paper Institute; Tea = Tea Association of America; Coffee = Coffee Institute; Cinnamon = Cinnamon Association; Corn = Corn Belt Association; Wheat = Wheat Association; Scrap = Scrap Iron Association; Stuffs = Southern Forest Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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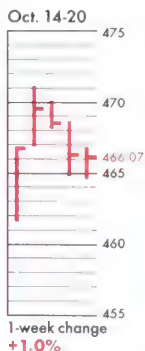
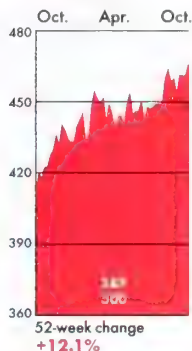
YPF 102

Investment Figures of the Week

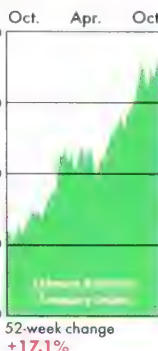
MENTARY

S. stock market failed to much inspiration from the merger between Bell Atlantic Telecommunications. Not surprisingly, media stocks—led by Telecommunications—led the list of gaining stock groups. And, the most vibrant activity place in London, whose stock hit an all-time high. In the one major technical indicator slightly. The put-call ratio, of short-term speculative sentiment among options traders, went from positive to neutral.

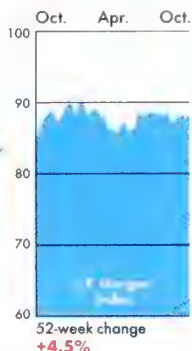
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change	
		Week	52-week
INDUSTRIALS	3645.1	1.2	14.4
COMPANIES (S&P MidCap Index)	173.5	-1.7	19.0
COMPANIES (Russell 2000)	255.0	-1.1	30.4
COMPANIES (Russell 3000)	269.0	0.2	14.5

IGN STOCKS	Latest	% change (local currency)	
		Week	52-week
ON (FINANCIAL TIMES 100)	3156.3	2.4	19.3
(NIKKEI INDEX)	20,173.4	0.7	17.7
TO (TSE COMPOSITE)	4182.2	1.7	28.6

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.12%	3.10%	2.97%
30-YEAR TREASURY BOND YIELD	5.82%	5.92%	7.61%
S&P 500 DIVIDEND YIELD	2.73%	2.77%	3.04%
S&P 500 PRICE/EARNINGS RATIO	21.9	21.7	21.8

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	415.5	450.7	Positive
Stocks above 26-week moving average	64.7%	63.8%	Neutral
Speculative sentiment: Put/call ratio	0.39	0.43	Neutral
Insider sentiment: Vickers sell/buy ratio	2.56	2.61	Negative

INDUSTRY GROUPS

WEEK LEADERS	% change	
	4-week	52-week
BROADCASTING	20.6	-70.1
D MINING	18.2	59.0
PITAL MANAGEMENT	17.4	49.4
CIALTY APPAREL RETAILERS	15.7	2.4
AND GAS DRILLING	14.0	20.0

WEEK LAGGARDS	% change	
	4-week	52-week
IRANCE BROKERS	-8.1	-10.2
PERTY-CASUALTY INSURERS	-7.3	9.8
HINE TOOLS	-6.8	37.3
DWARE AND TOOLS	-5.5	20.8
KERAGE FIRMS	-4.8	74.2

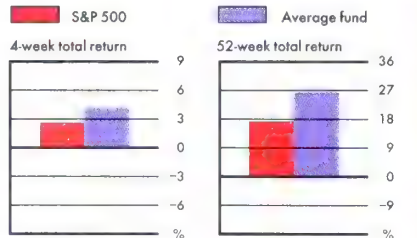
Strongest stock in group	% change		Price
	4-week	52-week	
TELE-COMMUNICATIONS	24.6	76.1	30 3/8
PLACER DOME	24.8	103.2	23 7/8
NATIONAL MEDICAL ENTERPRISES	45.2	13.9	11 1/4
GAP	24.8	8.5	33 3/8
ROWAN	30.2	13.9	10 1/4

Weakest stock in group	% change		Price
	4-week	52-week	
ALEXANDER & ALEXANDER SERVICES	-14.7	-23.8	19 3/8
USF&G	-19.7	39.0	14 1/4
CINCINNATI MILACRON	-9.0	64.0	22 3/4
BLACK & DECKER	-7.1	22.7	19 3/8
BEAR STEARNS	-10.6	63.7	22 1/4

MUTUAL FUNDS

RS	%	LAGGARDS	
		Four-week total return	%
NGTON STRATEGIC INVESTMENTS	17.3	EQUIFUND ITALIAN NATIONAL FIDUCIARY EQUITY	-5.5
INHEIMER GLOBAL BIO-TECH	16.2	DFA JAPANESE SMALL COMPANY	-4.8
PORT TIGER	15.4	CAPPIELLO-RUSHMORE UTILITY INCOME	-2.2

total return	%	52-week total return	
			%
NGTON STRATEGIC INVESTMENTS	181.7	PILGRIM CORPORATE UTILITIES	-11.5
GROWTH	99.5	INVESCO STRATEGIC ENVIRONMENTAL SERVICES	-6.7
MIDAS GOLD	73.7	JENSEN	-4.8



RELATIVE PORTFOLIOS

Amounts	Foreign stocks	Treasury bonds	U.S. stocks	Gold	Money market fund
ent the present					
f \$10,000					
d one year ago					
portfolio					
ages indicate					
total returns					
	\$14,090	\$12,806	\$11,456	\$10,679	\$10,220
	-0.89%	+0.58%	+1.10%	+1.61%	+0.04%

in this page are as of market close Wednesday, Oct. 20, 1993, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close

Oct. 19. Mutual fund returns are as of Oct. 15. Relative portfolios are valued as of Oct. 19. A more detailed explanation of this page is available on request.

FEAR NOT THE PHONE-TV BEHEMOTH

It was a compelling dream: Phone companies and cable TV companies would invade each other's markets, and customers would be the winners in this clash of titans. Prices of both phone and cable service would plunge, and high-capacity optical fibers would spread like kudzu. Well, the warriors are getting married: witness the \$12 billion merger of Bell Atlantic Corp. and Tele-Communications Inc.

Does this urge to merge mean that government will have to shackle the new telco-cable behemoths? Not necessarily. Competition can indeed exist. Only instead of phone vs. cable, there will be competing teams in each market, each made up of telephone and cable partners. That makes sense: Telephone and cable companies have complementary technical strengths, and keeping them at arm's length would be foolish.

Competition can work, given a fair chance. Government should preserve diversity by barring phone companies from buying existing cable operators within their own regions and vice versa. Such laws are on the books, and the courts should heed the government's appeal to let them work. To its credit, Bell Atlantic has said it will divest TCI properties in its phone market, even though a recent court decision gives it a rationale for hanging on to them.

Another principle: Telephone customers shouldn't have to finance futuristic video schemes. The cleanest way to protect them is to limit prices of basic phone services, which are already regulated. That way, Nynex Corp. can invest in anything—as long as a call from Schenectady to Syracuse doesn't go up in price.

What about access to the new networks? Poor areas won't be the first priority for profit-minded companies as they build information highways. Nevertheless, all Americans can have access to them through taxpayer-supported highway "ramps" in schools and libraries.

The wedding of telephone and cable companies comes as a shock to government guardians of communications. But they should feel redeemed. The information highway is no longer just the dream of Al Gore and others but a technological vision backed by billions of dollars' worth of private investment. That, in the end, is usually the best industrial policy.

WHAT GM NEEDS TO DO

Building teams is a new organization art form for Corporate America. Getting people to work together successfully has become a critical managerial skill. Those companies that learn the secrets of creating cross-functional teams are winning the battle for global market share and profits. Those that don't are losing out.

Take General Motors. Both Ford and Chrysler are picking up market share in the U.S. because each in its own way has discovered how to build product-development teams

that generate successful new models. Their method: Bring together people from engineering, design, purchasing, manufacturing, and marketing, and make them responsible for a group for the new car. Then destroy all bureaucracy at them, except for service support.

GM has yet to do this. Its team members remain tied to their old structures—the engineers to engineering, purchasing agents to the purchasing department. Decisions are made for the good of the new product but to satisfy antiquated requirements of ancient bureaucracies (page 126).

GM's new CEO, Jack Smith, is beginning to move against the auto giant's byzantine bureaucracy, but he has a long way to go. He has cut corporate staff and accelerated unification of GM's operating divisions into a single North American Operations structure. Smith knows the problem. The question is, can he move fast enough to solve them?

CLINTON'S FOREIGN POLICY THERE IS A VISION

Piling on is a great American political sport, and the Clinton Administration's gaffes in Bosnia, Somalia, and elsewhere are leaving the President black and blue. Congress is lashing out, trying to curb his power to maneuver in foreign seas. And media critics hoot that the Clinton Administration is hopelessly adrift in defining a post-cold-war foreign policy.

The truth is far more complex. In reality, the Clinton Administration has already succeeded in shifting U.S. foreign policy from military and ideological confrontation with the Soviet Union to global economic competition with Asia, Europe, and the rest of the world.

This policy shift is welcome. What, after all, are the U.S.'s foreign-policy interests? At the top of the list: fostering market reform and democracy in Russia. That allows for the build-down of the military-industrial complex in America, freeing resources to help out the budget deficit. Clinton's support of Boris Yeltsin has been correct from the start.

Expanding free trade is also high on the list. Again, Clinton has set the agenda by fighting for the North American Free Trade Agreement against his own Democratic Party. Hanging tough with France on concluding a major new General Agreement on Tariffs & Trade, battling with Japan over new, measurable market-access targets, and backing U.S. companies in China by instituting high-level talks.

Many of the Administration's most vociferous critics see the world through cold-war eyes. They don't realize that however painful conflicts such as those in Haiti and Somalia may be, the death of communism makes them peripheral to America's core interests. That doesn't mean that using U.S. power for humanitarian purposes in Somalia, or to promote democracy, as in Haiti, is to be completely avoided. The President is right in refusing to cut aid. But there should be strict limits on the resources expended. Most important, Americans must come to realize, as Europeans have, that intervention in the Third World will only be messy, frustrating, and at best, only marginally successful. In the post-communist world, America's self-interest lies in meeting the challenge of the new global economy.

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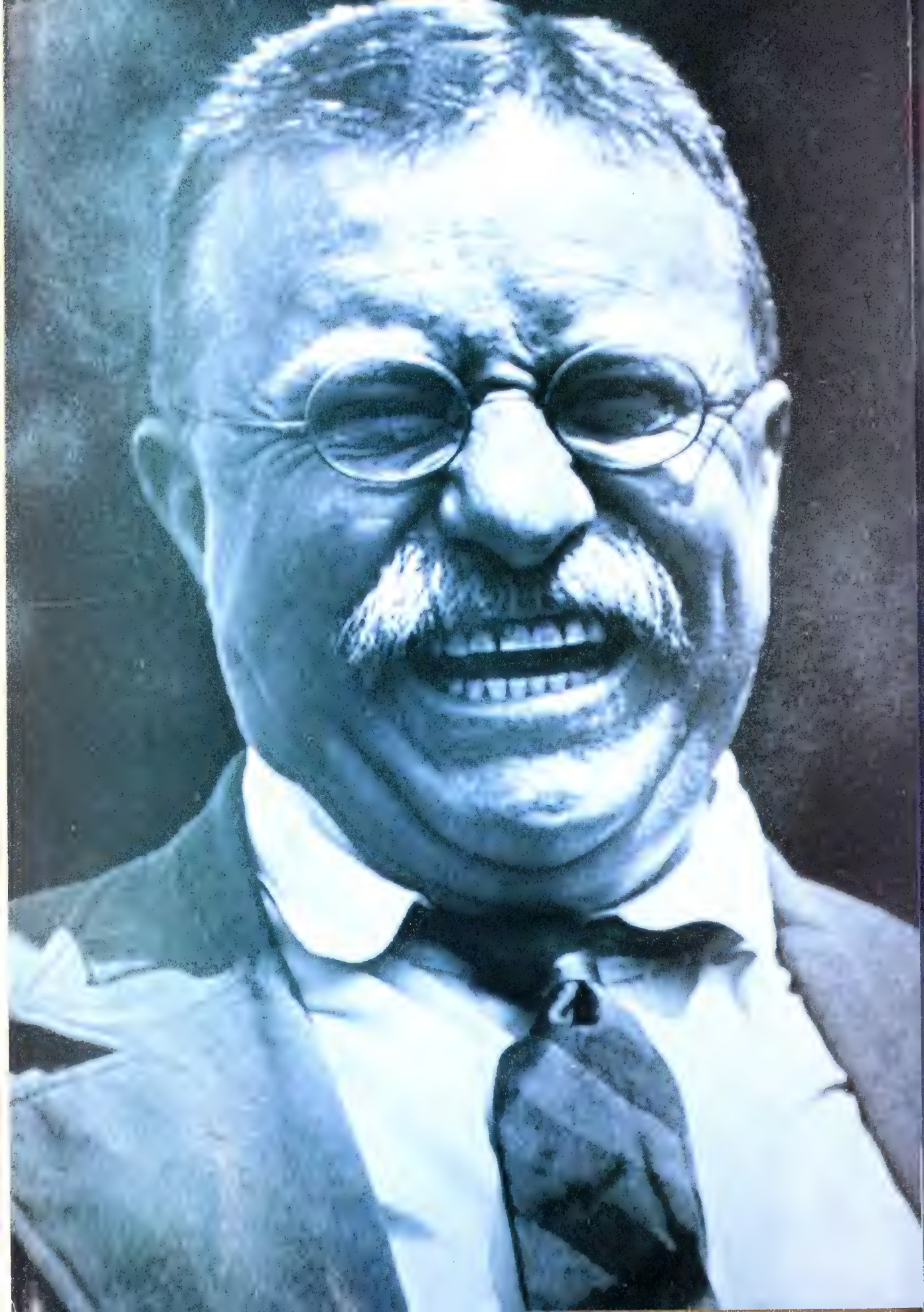
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PRUDENTIAL GEORGE BALL?

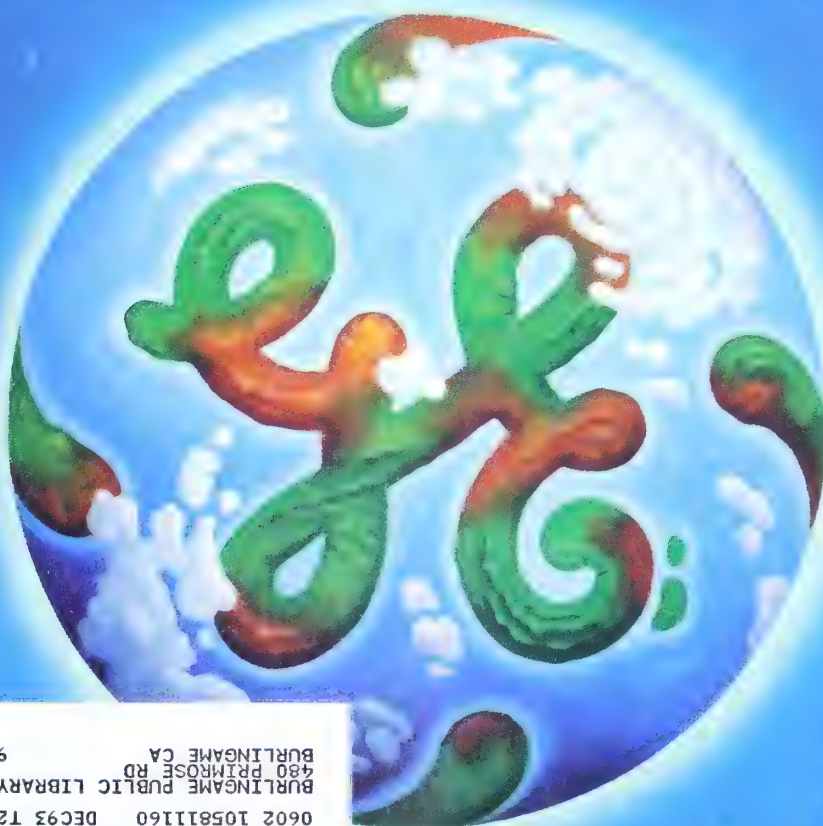
November 8

EMBER 8, 1993

A MCGRAW-HILL PUBLICATION



CEO Jack Welch sees the future: It's in China, India, and Mexico



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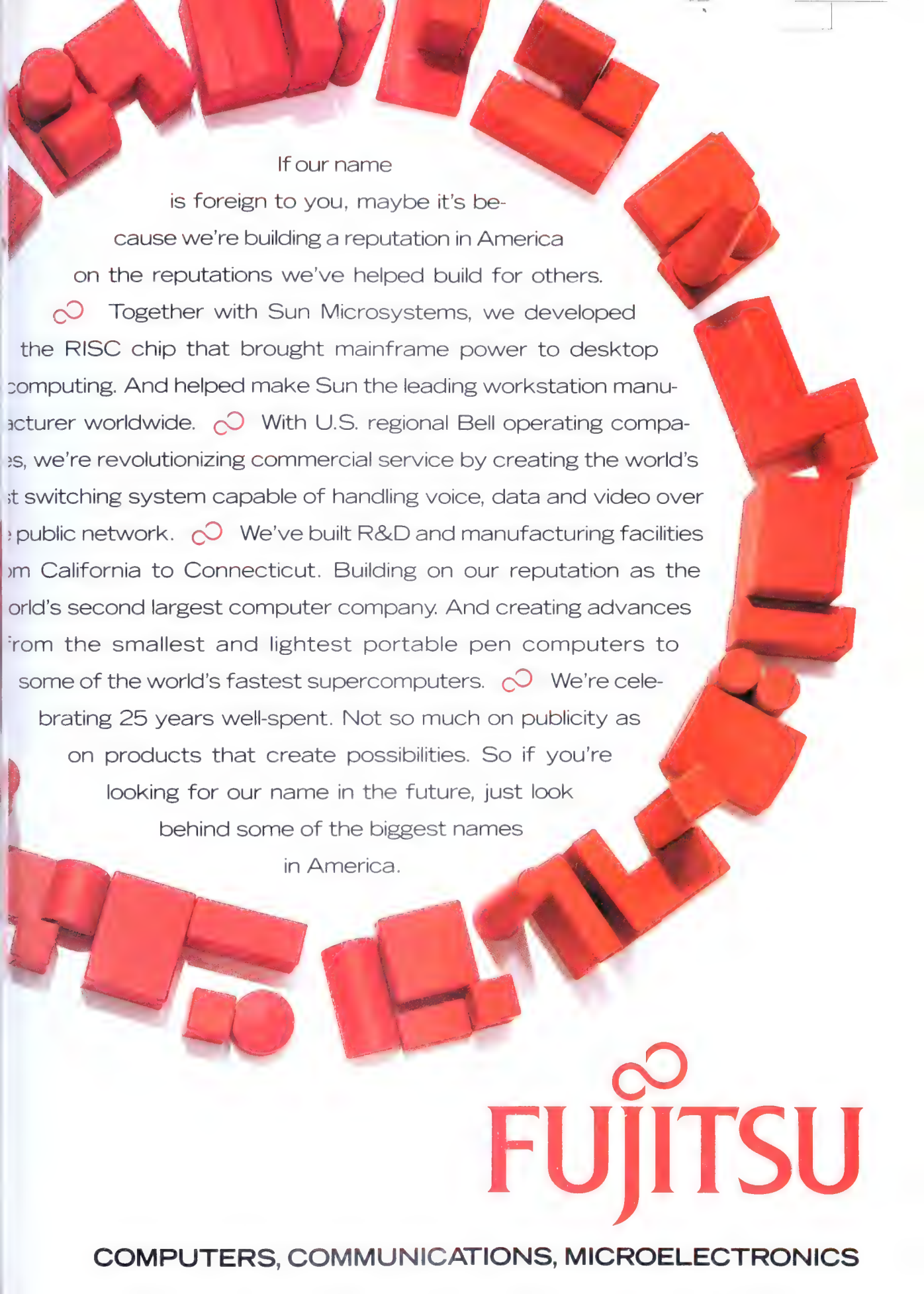
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on the reputations we've helped build for others.

Together with Sun Microsystems, we developed the RISC chip that brought mainframe power to desktop computing. And helped make Sun the leading workstation manufacturer worldwide. With U.S. regional Bell operating companies, we're revolutionizing commercial service by creating the world's first switching system capable of handling voice, data and video over the public network. We've built R&D and manufacturing facilities from California to Connecticut. Building on our reputation as the world's second largest computer company. And creating advances from the smallest and lightest portable pen computers to some of the world's fastest supercomputers. We're celebrating 25 years well-spent. Not so much on publicity as on products that create possibilities. So if you're looking for our name in the future, just look behind some of the biggest names in America.

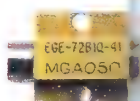

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

Sensitive, Slouching (How Much More Lifelike)



Safety (50)
1.0



Our dummies
the head to

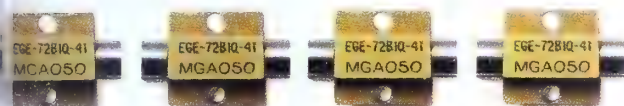


As you can see, this guy's spine is curved to mimic
the driver's slouch. His neck is designed to illustrate more human re-
fore and aft movement. And his torso even has ribs.

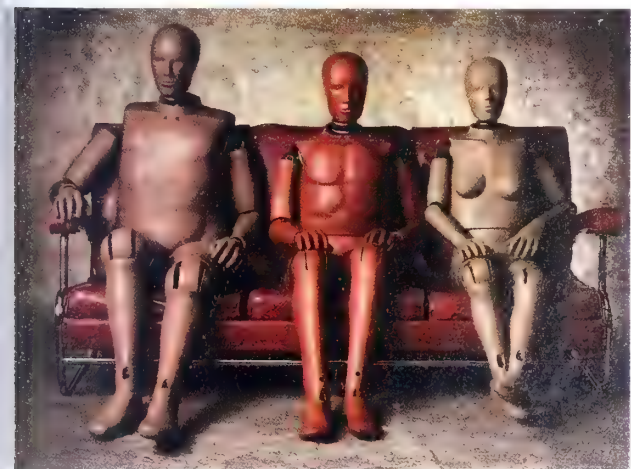
ald. an They Get?)



omobiles reinforces the critical importance of the three-point seat belt. In
s all reach the same conclusion: You should wear it at all times.



sensors and accelerometers. We place these devices throughout the body—in
ummy—to monitor the force of impact these areas receive in a crash.



We crash-test dummies of many different shapes and sizes, since
the people who drive Lexus automobiles come in all different shapes and sizes.
When it comes to safety, one size does not fit all.

In the realm of safety crash-testing, man is
not the measure of all things. Dummies are.
So it follows quite logically, the better the
dummy, the better the car.

At Lexus, we employ what could be re-
ferred to as the intelligentsia of crash-test dum-
mies. After all, they are extremely sophisticated
machines that can do more than simply take a
hit. In fact, they're designed to act human. As
such, they can think. (They are equipped with
computers.) And they can feel. (They are wired
with sensors and accelerometers, placed at
strategic points throughout the body.)

Above all, our dummies are designed to
help save lives, by showing us how our cars can
better protect the people who ride in them.

So while it's still impossible for us, or any
other carmaker for that matter, to build an
automobile that will guarantee your survival
in an accident, you can be assured of one
thing: Our crash-test dummies are trying
everything humanly possible.


LEXUS
The Relentless Pursuit Of Perfection.



JAKARTA CHOO-CHOO: SOUTHEAST ASIA, ALONG WITH CHINA, INDIA, AND MEXICO, WILL SOON BE GETTING EVEN MORE ATTENTION FROM GE

Cover Story

64 GE'S BRAVE NEW WORLD

Jack Welch has boldly decided to shift General Electric's focus from the industrialized world to Asia and Mexico. With prospects for future U.S. growth marginal, the \$57 billion GE, the third-most-profitable corporation in America, feels it has little choice but to head where the gains will be. But the political and economic risks loom large

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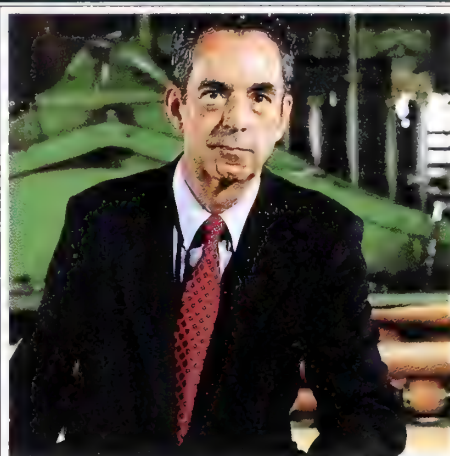
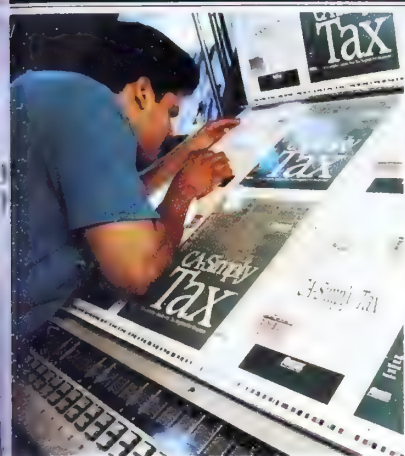
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Downsizing is fine. Growth is better
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Europe desperately needs leadership

Up Front

TALK SHOW

Anyone who thinks this is for power or glory has got the wrong guy.

—Viacom International Chairman Sumner Redstone as he announced he was raising his takeover bid for Paramount Communications to nearly \$10 billion.

EDITED BY LARRY LIGHT AND JULIE TILSNER

INFLUENCE PEDDLERS

ANOTHER CLOUDED CLINTON APPOINTEE

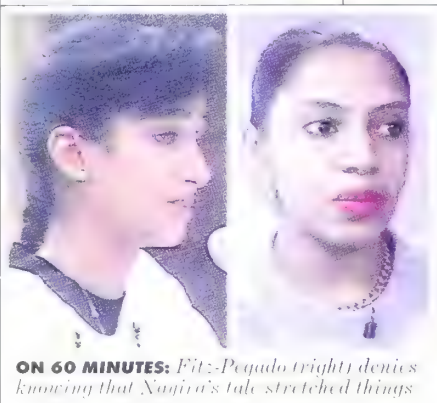
The export-hungry Clinton Administration has a controversial choice for top promoter of U.S. products abroad: Lauri Fitz-Pegado. Two years ago, as Washington mulled going to war in the Persian Gulf, Fitz-Pegado

bies from hospital respirators.

But in early 1992, it came to light that the girl, identified at the time only as Nayira, a recent escapee from occupied Kuwait, is the daughter of Saud Nasir Al-Sabah, Kuwaiti Ambassador to the U.S. A Kuwaiti government study found that the baby-incubator testimony was based on a "single incident."

Fitz-Pegado told a 60 Minutes interviewer at the time that she hadn't meant to deceive and believed Nayira's story. Hill & Knowlton says the firm knew about Nayira's family ties, but claims Congress wanted it withheld. Fitz-Pegado isn't answering press queries these days. Named to head the Commerce Dept.'s U.S. & Foreign

Commercial Service, Fitz-Pegado, 38, has an O.K. from the Senate Banking Committee, which apparently didn't know about the Kuwait flap. She still needs a nod from the Commerce Committee and the full Senate. A Commerce Dept. spokeswoman says judging her on that lone incident would be "unfair and unfortunate." *Douglas Harbrecht*



ON 60 MINUTES: Fitz-Pegado tightly denies knowing that Nayira's tale stretched things

helped Hill & Knowlton's Kuwaiti clients whip up support for U.S. intervention with tales of Iraqi atrocities. As a managing director of international affairs for the public-relations firm, she prepped 15-year-old Nayira Al-Sabah to appear before the U.N. Security Council and Congress and testify that she saw Iraqi soldiers remove Kuwaiti ba-

BARRY:
Three
months
owed?



CITY LIFE

THE LANDLORD KNOCKS ON SULLIVAN'S DOOR

Chicago is still zapping moneyman Barry Sullivan, even though he decamped for New York a year ago. The latest: His landlord back in the Toddlin' Town is suing the former First Chicago chairman for \$13,226 in back rent on Sullivan's Gold Coast digs. That's for three months in 1992 when the place stood vacant before the lease expired.

Sullivan, now New York City's deputy mayor for finance and economic development, says the Sudler N real estate outfit has waited till now to pressure him through embarrassment with his boss, Mayor David Dinkins faces a tight election.

Sullivan left First Chicago under a cloud in mid-1991 after his go-go strategy turned into a morning after of loans. Plus, although Sullivan wasn't involved, his assistant was convicted of accepting a million in kickbacks. And he took the heat when some of the bank's top officers allegedly ran a high-stakes basketball pool. Sullivan says he didn't know about the back scheme and won't comment on the betting pool.

Sullivan isn't a hard case. He has a \$780,000-a-year consulting contract with First Chicago, and he drew his \$12,000 salary to charity. His lawyer says he's not suing because the landlord sabotaged his plan to sublet the place. *David Greiner*

CORPORATE COURTSHIPS

VOLVO: JITTERS AT THE ALTAR

The proposed Volvo-Renault merger has developed engine trouble. The problem: A group of Volvo shareholders objects that the deal favors French-government-owned Re-

nault, which would get 50% of the combined company. The dissidents say that improving fortunes at the once-ailing Swedish outfit entitle it to a bigger share. The much-vaunted Renault also bugs them by insisting on a provision that allows it to block purchases of more than 10% of the new company's shares.

A showdown is looming at the Volvo stockholders' meeting on Nov. 9. The dissidents control just 29% of the vote, but they're hoping to enlist institutional shareholders, a sizable bunch in Sweden. Chances of success? In 1979, similar unrest aborted Volvo's merger with Norwegian oil company Statoil. *Ariane Sten*

REALITY CHECK

ALAN GREENSPAN SAYS Federal Reserve Board policy decisions should remain secret until the Fed chooses to unveil them six weeks later. Responding to congressional critics who want to open up the process, the Fed boss

IN REALITY, the Fed periodically leaks word of policy changes, so it has no call to act so high-and-mighty. As a matter of fact, a recent study by two economists at the St. Louis Fed found that early release seldom has a big effect on the markets, because Wall Street is rarely surprised by Fed decisions. Ger-

says a tight-lips policy helps the central bank avoid creating turbulence in the credit markets. Plus, he says, airing details of what goes on in Fed meetings would squelch free and frank discussion. Now, only sketchy summaries are released.



many's Bundesbank frequently announces decisions at a press conference held the day it votes. As far as doings inside the Fed, the only things that should be kept under wraps are contingency plans for possible future rate cuts or hikes. Otherwise, why not release full accounts of a public body's meetings within a week?

Imagine if travel were simply an expression of your own
body... imagine that as soon as you desired being there, you were
there. A dream. Of course there is always Swissair. Swissair puts
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"Jump"
by Bob Long
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Up Front

AFTERLIVES

STOP ME BEFORE I SHILL AGAIN

Daryl Gates, the iron-fisted ex-police chief, isn't twirling his stick on the streets of Los Angeles anymore, but he's ready for action—of the virtual



GATES'S GAME: (Gritty, authentic

kind. Gates, who stepped aside last year in the wake of the Rodney King furor, has lent his name and expertise to a new multimedia comput-

SHOW BIZ

LIFTS FOR LATIN LOVERS

Elevator music is going Latin. Muzak, which has pumped out bland, soothing sounds for 60 years, is chasing the Spanish-speaking audience with a new music program. "The Hispanic population is growing faster than any other" U.S. ethnic group, reasons John Jester, president of the Seattle-based company. But those who like their salsa hot will be disappointed. The

er game called *Police Quest IV: Open Season*.

The game doesn't grapple with anything resembling the devilish political and ethical problems Gates suffered after the videotaped beating his officers meted out to King. Instead, it's a tense whodunit, with the cops as the good guys: An LAPD detective is the hero who must catch a serial killer without getting iced himself. The maker of the \$70 game, Sierra On-line Inc. in Oakhurst, Calif., hired Gates for an undisclosed sum to infuse it with gritty authenticity gleaned from his 43 years on the force.

Gates is a busy guy. "When I retired, I told myself I wasn't going to do anything that wasn't fun," he says. He's also on the rubber-chicken circuit and has a two-hour weekly L.A. radio call-in show.

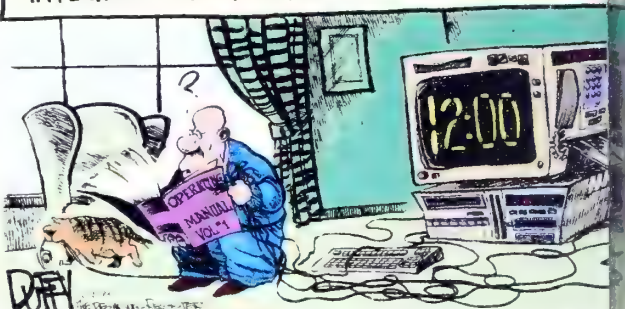
Has Gates mellowed? Not quite. In the game, the hero is confronted by a dog. "I would have shot the dog," Gates says with a smile. But the game-meisters didn't want that much gritty authenticity. They settled for tossing the hound a bone. □



new playlist, Latin Styles, features mostly lulling tunes from Julio Iglesias, Gloria Estefan, and other middle-of-the-road types. □

DRAWN AND QUARTERED

FOR THOSE WHO CANNOT PROGRAM THEIR VCRs, THE INFO-TECHNOLOGISTS WILL SOON BE INTRODUCING A TOTALLY INTEGRATED TV, PC, VCR, PHONE-FAX MACHINE UNIT.



MIGRATIONS

STEPPING OUT OF THE PICTURE

The top job isn't the only one open at Eastman Kodak. Ever since Chairman Kay Whitmore got his walking papers from the board in August, his fellow executives have been retiring at a rapid clip. Insiders say the exodus of top people, along with the delay in replacing Whitmore, is hobbling decision-making on major issues.

Of the 10,000 jobs Whitmore vowed to cut, only a few hundred have been identified—and none axed yet. And there's doubt that the planned move of the North American imaging marketing group to Washington from headquarters in Rochester, N.Y.—meant to shake off its alleged insularity—will happen. Morale is subterranean now.

Latest to announce his retirement is William Fowble, 55, the No. 2 executive in the core imaging group, which handles film and the like. Two top corporate jobs also are vacant: senior vice-president for communications and public affairs, and top human-re-

sources executive. The company has been without a financial officer since Christopher Steffen abruptly resigned in April.

Insiders are abuzz over futures of the top two line executives, who have been by the board they aren't candidates for the CEO slot. Speculation is that Wilbur SiPrezzano, 52, who heads



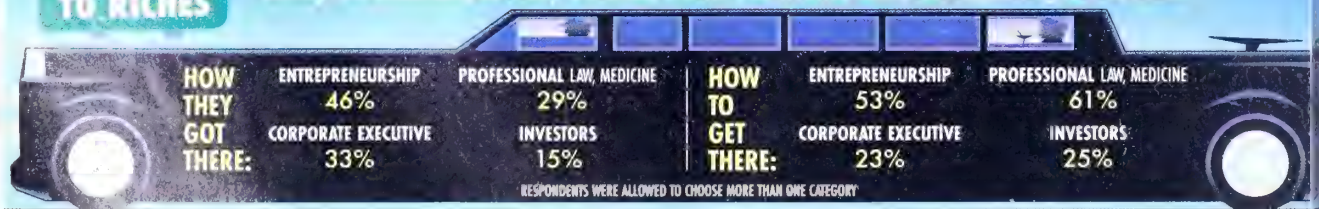
\$5.1 billion health-care division, is mulling a departure if the new CEO changes his responsibilities. Leo "Jack" Thomas, 57, the imaging boss, also is rumored to be frustrated and considering options. None of these Kodak folks would comment.

What's next? The board has a meeting slated for October 12, but an announcement of Whitmore's successor could take longer. Mark Marek

THE BIG PICTURE

THE ROAD TO RICHES

A kind of wealth: Many Americans say they got rich through corporate executive jobs, says a U.S. Trust survey. For working to today's money market. As a result, the survey found, the future



FOOTNOTES

Amount the IRS recovers on the dollar in tax cases of \$10 million or more: 17¢. In smaller cases: 42¢.

Monthly Report to Product Managers

Current analyses of the marketplace strongly suggest that electronic instruments will grab an ever increasing share of the market for musical instruments. To stay competitive in the next decade, Encore must pursue this growing business. Executive management is committed to making a sizable investment in research and development over the next five years to make this possible. To this end, Encore will form an electronic instruments division headed by Vice President Don Hall. The existing organization will be renamed the Acoustics division to be headed by Vice President Greg Perlot.

How do we get there?

While our entry into the electronic instrument business means the company will need to recruit outside personnel, executive management is interested in moving a core group of current product managers to

In 1981, Microsoft created the MS-DOS operating system. For the first time, it became possible for you to work on a personal computer.

Microsoft Excel

File Gallery Chart Format Macro Window Help

REVENUE.XLS

B	C	D	E	F	G	H
Encore Musical Instruments						
Division Revenue by Region (in thousands)						
	1990	Q1	Q2	Q3	Q4	Totals
Acoustics Division						
Asia		31 850	24 620	27 215	31 715	123 400
Australia		25 075	16 225	20 155	30 845	92 300
Europe		40 575	36 520	33 450	50 155	160 700
North America		48 525	41 380	42 415	57 780	190 100
South America		24 600	22 355	19 260	31 685	98 400
Acoustics Total		170 625	141 100	142 995	210 100	664 900
Electronics Division						
Asia		31 675	27 155	31 625	36 245	126 700
Australia		23 475	21 870	19 030	29 525	93 900
Europe		40 250	35 465	37 320	47 965	161 000
North America		51 550	44 755	47 465	54 430	198 200
South America		23 325	19 255	22 630	34 090	99 300
Electronics Total		170 275	148 500	158 070	202 255	679 100
Total Revenue		340 900	289 600	301 065	412 435	1 344 000

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Microsoft Office



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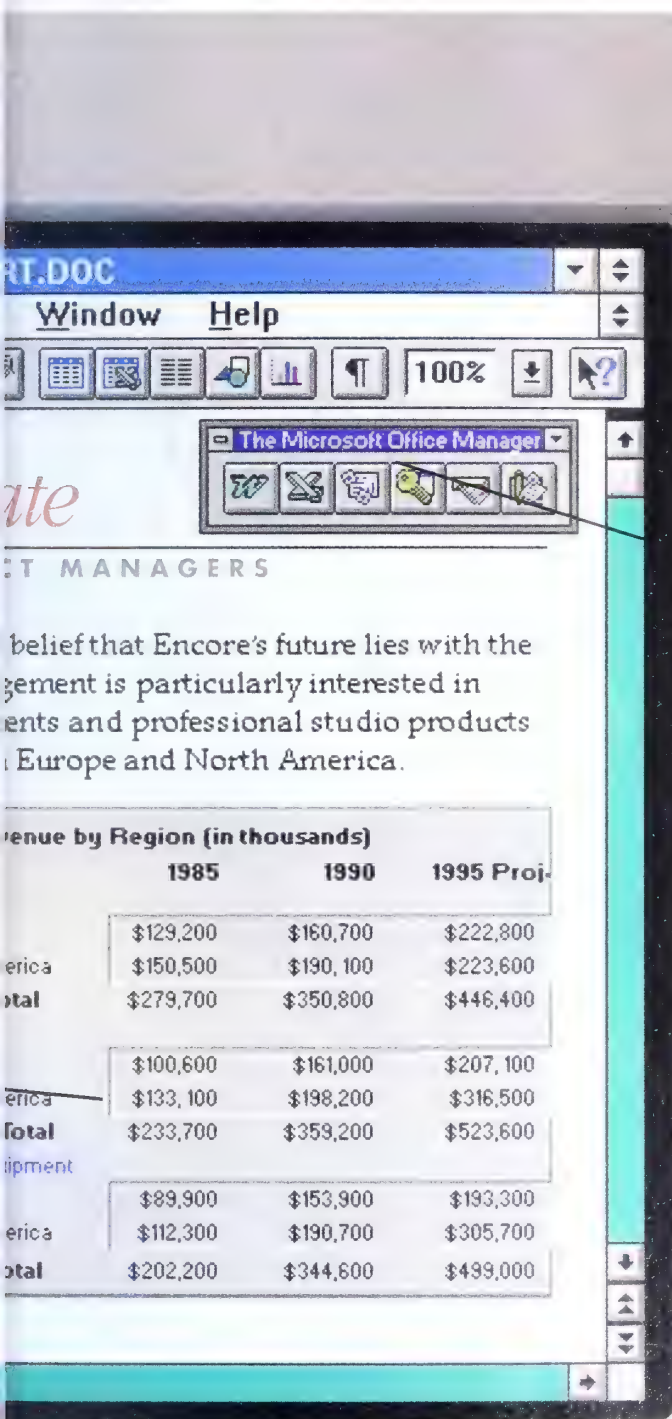
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THE DAMAGE OF CORPORATE DOWNSIZING

Congratulations to Robert Kuttner for having the courage and foresight to point out a dangerous paradox in Corporate America's thinking ("Talking marriage and thinking one-night stand," Economic Viewpoint, Oct. 18).

Employees know that words are cheap and actions are dear. No amount of exhortations to commitment, loyalty, or improved productivity for the "team" or "family" have any meaning when people believe—and rightly so—that they may be terminated at a moment's notice. This doublespeak emanating from top management, consultants, and academics contributes to increasing fear and loathing on the part of employees and reinforces the "me first and only" ethic prevalent in American business and society.

Another reason to rethink these policies is that continued downsizing and the threat of reductions virtually guarantee suboptimal performance on the part of those left in organizations. The "survivors" often are left to struggle with too much work while living under the stresses of potential layoff.

Suzyn Ornstein
Associate Professor of Management
Suffolk University
Boston

LAID-OFF DEFENSE WORKERS NEED MORE THAN REORIENTATION

Your story on the laid-off Hughes Aircraft Co. defense engineer ("From Hughes to hell—and back," People, Oct. 18) provides a number of lessons. We work with defense people nationwide who have to move to commercial industry. The engineer's experience is all too typical of people we talk to. The denial of reality and inability to understand the transition process are not unexpected, as defense people have often worked in defense their entire careers, often at only one company or agency.

Unfortunately, the assistance programs that are generally available, primarily government-sponsored, do not adequately meet the unique needs of these people—contrary to government's

view that defense people are an unemployed "resource" and only need reorientation. Many technology companies are hiring, but "two weeks of tedious classes in resumé writing and interviewing techniques to gain access to a list of jobs" is a government-inspired solution that fails people like the one in your story.

While out-of-work defense people are only one part of today's employment problem, they are easily identified, often recently transferable, and immediately available to solve some of the country's problems. Multiply your sad story by a million people, and you can see the impact of getting them effective help on the status quo.

V.W. Souven
Executive Director
National Center For Career Change
Walnut Creek, CA

THUMBS DOWN—AND UP—FOR UP FRONT

I like BUSINESS WEEK a lot. It's one of the few magazines that my husband and I read religiously the very day it arrives in the mail. But what's with the new section, Up Front? The whole section is just not BUSINESS WEEK's style. Not that styles can't and should change, but this one just doesn't seem consistent with what I know and know about your magazine.

Michelle Griffin
New York

Enjoy your new Up Front section. Keep up the good work.

Joel A. Dugan
Woodsville, N.H.

CASINOS IN LOUISIANA? WANNA BET?

Your casino-gambling article ("Too many players spoil the game," Entertainment, Oct. 18) contains a glaring error, and I'd like to set the record straight. There are not 9 floating casinos in Mississippi, there are 11 (7 on the Mississippi gulf coast in Biloxi, Gulfport and Bay St. Louis, and 4 on the Mississippi River in Natchez, Vicksburg, and Tunica.) There are not 15 in Louisiana but zero—that is to say, none. I don't want any of your readers to be lost in

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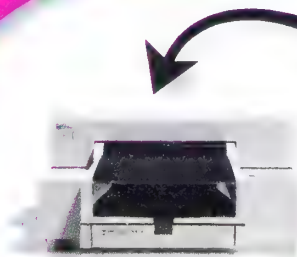
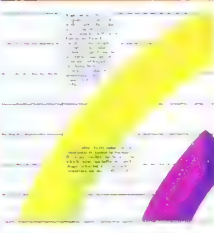
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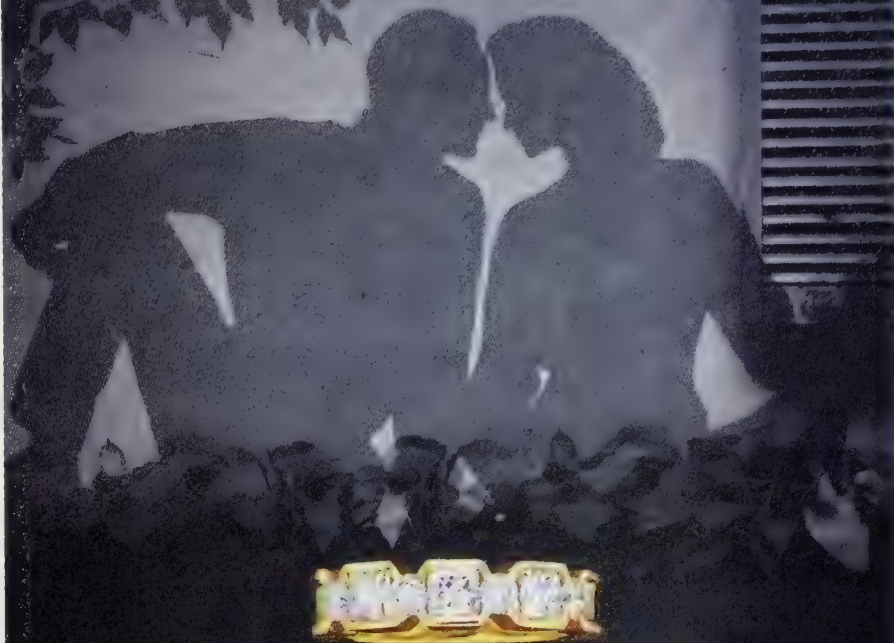
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Readers Report

CORRECTIONS & CLARIFICATION

"Will too many players spoil game?" (Entertainment, Oct. 18) erroneously stated that the Dunes had burned down. An annex to the hotel caught fire, but the main building was left standing.

Louisiana looking for nonexistent casinos when they could come directly to Mississippi—where the action is.

Also, I don't believe Promus Co.'s cancellation in Biloxi had to do with an overcrowded market but rather with site difficulties. Promus' \$40 million investment in hotel facilities, plus a new gaming casino in Vicksburg, Miss., should begin operation in about two months.

Governor Kirk Fordice
Jackson, Miss.

Editor's note: Governor Fordice is correct. Louisiana has granted 15 licenses for floating casinos, but none is in operation.

WHY SCHOOL CHOICE IS NO CHOICE AT ALL

Let's get the facts straight. School choice is not finally coming to California ("California may choose school choice," Top of the News, Oct. 18). In school districts in California, like the oft-maligned Los Angeles Unified School District, have had open-transfer programs in effect for years. Furthermore, the public school system in Los Angeles maintains a network of popular, academically enriched magnet programs with a proven track record of success—especially among inner-city students.

These are the students most expensive private schools don't want to touch. Ironically, it is these successful public school programs that will be shut down if the voucher initiative passes. And for these students these programs serve well with no school choice at all.

William Joseph Miller
Los Angeles

Your article promotes the myth that our poor public school performance is due to inadequate funding. Deceptive propaganda by the National Education Assn. to convince us otherwise. Our public schools are well-funded. Our public school funding per pupil is at or above that in other, more successful school systems in the world.

Tom Sebring

Letters to the Editor should be sent to Readers Service, Business Week, 1221 Avenue of the Americas, New York, N. Y. 10020. Fax (212) 512-4721. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.



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When a derrick worker tried to drag out his disability payments, we suspected his claim was rigged.

To all appearances, the derrick worker in this workers' comp case had merely bruised his foot. So when he dragged out his disability claim, complaining to his doctor that he couldn't walk without a crutch or even pump gas, our local State Fund adjuster suspected fraud.

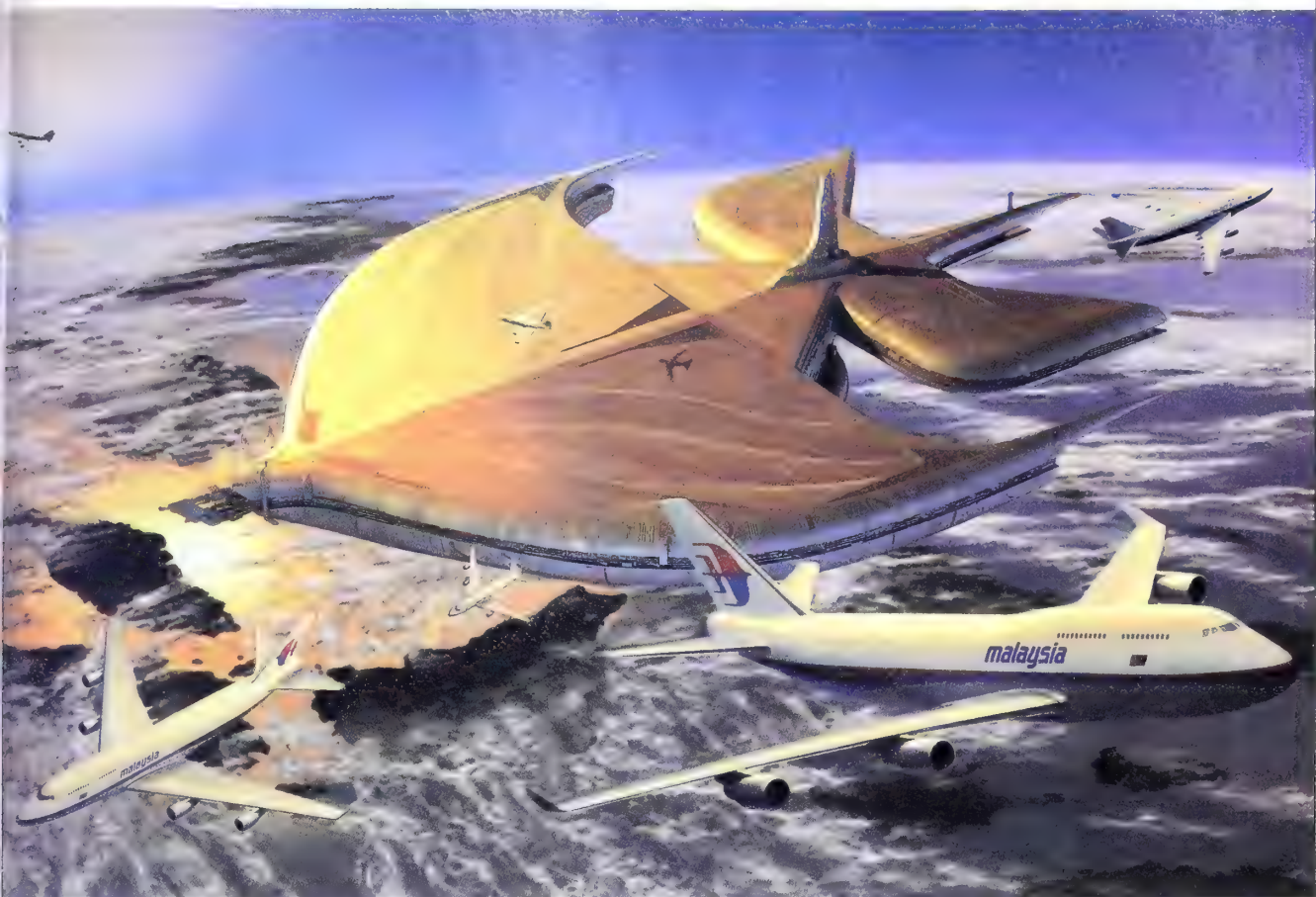
Our investigation proved enlightening. The same man who limped into his doctor's office on a crutch was videotaped running, dancing, roughhousing—and, you guessed it, pumping gas. The evidence State Fund collected not only prompted his doctor to end his disability status, it also paved the way for the worker's arrest and conviction for fraud.

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AN EPIC TALE OF TALENT AND OPTIMISM

Ron Chernow keeps disproving the stereotype of bankers as boring. In his justly acclaimed *The House of Morgan*, he depicted the iron-willed titan of finance, J.P. Morgan, and his associate Thomas W. Lamont as huge, wed, and fascinating characters. Now, he has struck literary gold again with *The Warburgs*, an extensively researched, lovingly told saga of an extraordinarily talented and appealing German-Jewish banking family that had a surprisingly big impact on the U.S. The story is both epic and tragic.

Chernow traces the family's origins to a 16th-century money changer and winebroker in Warburg, Germany. After moving to Hamburg in the late 1800s, the family rode the crest of German power under Bismarck and Kaiser Wilhelm II to vast wealth and influence.

The Warburgs were German patriots and boosters. They aided German foreign adventures, notably a farcical 1911 attempt to muscle into Morocco. They watched with pride as the Imperial German battleships paraded on the Elbe. But de-

spite their success and service to Germany, they were always suspect because they were Jews. When the German economy soured after World War I, anti-Semitism grew. Establishment ties didn't spare the family near-ruin under the Nazis.

An army of colorful Warburgs marches through the book. There's biologist Paul Warburg, winner of two Nobel prizes whom Hitler protected in hopes he would find a cure for cancer. There's the formidable Sara, who ran the family bank, M.M. Warburg & Co., in the mid-19th century and built great good will by helping Hamburg through a financial panic. At the story's heart are five of her grandsons—brothers Aby, Max, Paul, Felix, and Fritz. They presided over M.M. Warburg's most glorious years, as well as its long struggle with the Nazis. Chernow portrays them as high-spirited, often hilarious characters known

for their wicked wit and youthful pranks.

But the brothers also epitomized the struggle of many to "reconcile the contradictions of being Jewish and German, nationalist and internationalist, traditional and modern." Such contradictions helped drive the eldest, Aby (1866-1929), mad, though he produced seminal scholarship on art history.

Max (1867-1946), who ran the bank, also struggled to reconcile his Jewish and German identities. In some ways, he succeeded grandly, making M.M. Warburg Germany's largest private bank

surged to world industrial and financial preeminence. With Paul and Max in daily cable and phone contact, M.M. Warburg became a pioneering global investment bank, participating in countless U.S. government and railroad issues.

Chernow says the family considered Aby its genius, but Paul could also bear that sobriquet. He foresaw the 1929 crash and, with John Maynard Keynes, predicted the disastrous results of the financial burdens put on Germany after World War I. Soon after immigrating to the U.S., he began advocating a central bank system and emerged as a key architect of what became the Federal Reserve System—an extraordinary feat for a foreigner and a Jew in then-xenophobic America. President Woodrow Wilson appointed him to the Federal Reserve Board in 1914 and named him vice-governor in 1916. Then, in a hugely ironic twist, the war made his German ties an issue, and in 1918, Wilson decided not to reappoint him.

The Warburg name remains prominent largely because of a cousin, Siegmund G. Warburg (1902-1982). After moving to London in 1934, he built S.G. Warburg & Co. into Britain's top investment bank and a world player in international securities. Chernow is good on Siegmund's perfectionism and occasional ruthlessness. This outsider won business away from sleepy British houses through efficiency and meticulous cultivation of clients. He prevailed in the landmark 1958 hostile takeover of

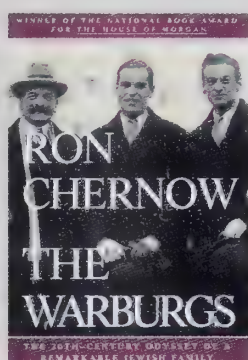
British Aluminum in part by holding a press conference on a Friday evening, when the lords of British finance were at their country houses.

Britain owes Siegmund a huge debt for pioneering the Eurobond market in the 1960s, thereby reestablishing London as a world financial center. And where did this refugee from Hitler sell his bonds? In economically resurgent Germany. While many Warburgs remained leery of Germany, others were irresistibly drawn back: Chernow says Siegmund spent half his time there in the 1960s. Today, Max's grandson, also named Max, presides over the reclaimed and rejuvenated M.M. Warburg Bank in Hamburg. As Chernow writes, only the resurgence of German anti-Semitism mars this exhilarating ending.

BY STANLEY REED

International Outlook Editor Reed is a financial history buff.

Bankers, scientists, scholars—and German patriots—the Warburgs struggled tragically with the Nazis



and hobnobbing with top German officials. Warburg partners sat on the boards of dozens of German companies.

Yet Max's patriotism and optimism blinded him as Nazi influence grew. He kept shrugging off humiliations, giving agonized speeches on German-Jewish patriotism. Thinking he could outlast the Third Reich, he persuaded his brothers to pour good money after bad. Circumstances forced him into what Chernow calls a "ghoulish" role, brokering Jewish property at fire-sale prices. After losing much of the family fortune, he fled to the U.S. in 1938.

Unlike less fortunate German Jews, the Warburgs had a lifeline out. In 1895, Paul and Felix had married, respectively, daughters of Solomon Loeb and Jacob Schiff, top partners in New York's leading Jewish banking house, Kuhn Loeb. These marriages gave M.M. Warburg a link to Wall Street just as the U.S.

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WORKERS WILL LOSE THE MOST IF NAFTA DIES

BY RUDI DORNBUSCH



Without NAFTA, Mexican workers will go back to square *uno*, the U.S. won't pursue a high-wage strategy, and we will all fall for yet another narrow-minded, protectionist folly

The U.S. labor movement argues that if the North American Free Trade Agreement goes forward, labor on both sides of the border will lose. They say Mexican labor won't ever get higher wages without a meaningful development plan. They also say the U.S. needs a high-wage strategy, including a higher minimum wage, not additional opportunities for more of its companies to engage in low-wage competition.

All that may sound as if it's good for labor, but don't fool yourself. If NAFTA fails, Mexican workers are going back to square *uno*, U.S. workers won't get the high-wage treatment, and we will all fall for yet another narrow-minded, protectionist folly. Calling for a meaningful development plan is hypocritical, smacking of the interventionism and big spending that got Latin America in trouble in the 1970s. Most people in the world work for a living, they don't get meaningful development plans; just socialists do, and then only as long as the money lasts. The Mexicans wasted their money in the 1970s, and the U.S. did the same in the 1980s. Now, everybody has to pay their own way. Why shouldn't Mexico be allowed to work, export, and pay its debt in dignity rather than be consigned to welfare status? As for the high-wage strategy in the U.S., NAFTA doesn't preclude better jobs. More exports mean more and better jobs for American workers.

BETTER ANSWERS. Ross Perot's bugbear of cheap Mexican labor taking 5 million U.S. jobs is scare-mongering. Not surprisingly, Perot and the other peddlers of cheap scares are going all out. None of us should buy into such lies. The economics of NAFTA leave no doubt: Both sides will benefit. But if NAFTA fails, the U.S. and Mexico will lose a lot. Opponents of NAFTA on economic grounds should remember that 300 professional economists, including 16 Nobel laureates, recently urged the President to go forward. People who care for labor on both sides of the border should recognize that there are better answers to problems of skill, markets, and competitiveness in cooperation than in protectionism.

If NAFTA fails, Mexican President Carlos Salinas de Gortari will have to turn his back on the U.S., Japan will get into the Mexican market, and U.S. companies will keep waiting for better access. If NAFTA fails, external capital for Mexico will dry up, and that means a peso crisis. Mexico currently runs a deficit of more than \$20 billion, financed by borrowing abroad or selling assets to foreign investors. If the money stops, so will deficit spending. U.S. exports to Mexico will be cut off overnight, and Mexican exports will stage a comeback.

The 350,000 new jobs created by U.S. companies to produce extra goods in the past five years will be gone before the year is over. If the peso collapses, foreign goods become less affordable to Mexicans, and their own manufactures get a boost abroad.

MAJOR REVERSE. Peso collapse would saddle Mexico with a loss of economic control and yet another fall in Mexican real wages. This is tantamount to a major political reverse to the Salinas administration. The Mexican opposition plans to restore an old-fashioned Mexican control economy with nationalized industries and big labor bosses. Anyone who cares about social, economic, and political progress in Mexico must recognize that Salinas has been creating the preconditions for a stable and open political system. The last thing we want is to fall back a decade, with far less chance for progress.

The failure of NAFTA would have large consequences for the U.S. The immediate loss of export jobs, and profits is important but not overwhelming. The large cost comes in two other ways. First, the coalition against NAFTA has an agenda that only starts here. Representatives Richard A. Gephardt (D-Mo.), Ross Perot, J. Buchanan, Ralph Nader, Washington labor leaders, and countless groups of do-gooders are ready to build a big wall around America. Should they win with an anti-NAFTA platform, they would swiftly go on to kneecap the General Agreement on Tariffs & Trade. Why, then, will ask, should we go even further toward an unlevel playing field that adds to environmental degradation and worker abuse while lining the pockets of greedy corporations?

The other important risk of saying no to NAFTA involves geopolitics. Our strategy of opening markets and preaching economic reform would rightly be called hypocritical. Reformists would have egg on their faces just as results are showing. And if the President loses on NAFTA, what can he credibly deliver? Surely any punk dictatorship will recognize this as a good time to launch a new affront to world peace. There is little cohesion among former major players in the cold war, and the U.S. is the only country with any authority. If the President loses on NAFTA, his term ends long before 1996. That increases political gridlock at home and instability abroad.

By now, the stakes have grown much larger than the narrow issue of Mexico. When the peddlers of protectionism and scare go out because they sense a unique opportunity to do mischief, it is important to stand up and speak out for strong ties across borders, open markets, and opportunities for all. Saying yes to NAFTA is the way to go.

RUDI DORNBUSCH IS PROFESSOR OF ECONOMICS AT MASSACHUSETTS INSTITUTE OF TECHNOLOGY



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— Sandy Milne,
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Sandy Milne holding forth on the pistols.

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Also at George's belt, fortunately, were a pair of hair-trigger pistols, given him by the laird of Aberlour. Before the men could jump him, he cocked one of the pistols and fired into the peat fire. A cloud of white ash filled the room. By the time it had cleared, George was on his horse and well away.

“If that pistol had misfired,” says our Sandy Milne, “there might not be such a thing today as The Glenlivet. A thought horrible to contemplate.”



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JOHNSON
CONTROLS

BY PAUL MAGNUSSON

THAT WAS NO RECESSION, THAT WAS A 'CONTAINED DEPRESSION'

The U.S. economy has been laboring in first gear ever since a relatively mild recession ended in March, 1991, right? That's what most economists believe. Indeed, the accepted wisdom is that stronger growth is just around the corner. But not according to David A. Levy of Jerome Levy Economics Institute. This was no mere recession, he says—it was a "contained depression," and we're still in it.

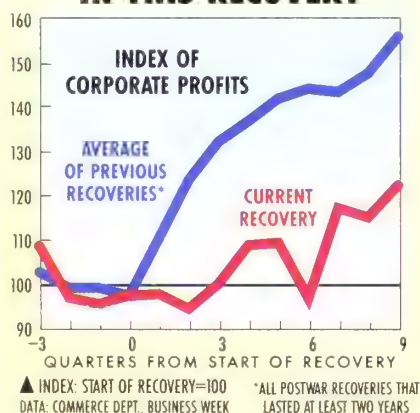
Levy points to the relative weakness of profits as a key sign of the economy's underlying problems. Profits, which normally are up almost 60% at this stage of a recovery, are up only 25% (chart). Payrolls hit bottom 11 months after the

the collapse in fixed private investment.

Compared with the Great Depression of the 1930s, this "depression" has been contained by two new factors, says Levy. The financial system is protected by such safeguards as deposit insurance and a Federal Reserve willing to pump money into a sluggish economy. And the federal government spends nine times the share of GDP that it did at the beginning of the 1930s, putting a floor under economic growth. Indeed, the danger at this point, says Levy, is that well-intentioned politicians may take too large a cut out of the federal budget deficit, depriving the economy of needed support.

Levy is not all doom and gloom. He sees the economy slowly healing itself, with balance sheets improving, overcapacity easing, and restructuring of vital manufacturing industries well under way. Eventually that will mean a revival in investment, perhaps even a boom. But the recovery could be a long drawn-out affair: Levy sees the current "depression" lasting to 1996.

PROFITS ARE WEAK IN THIS RECOVERY



recession's official end. The reason, Levy believes, is that the U.S. has entered a new era of sharply reduced capital spending, with private investment dropping from its traditional level of 14% to 17% of gross domestic product to below 13%. This fall has been caused by overcapacity and excess debt, which take longer to right than the overproduction and excess inventories that typically cause business cycles.

These troubles have been brewing for decades, according to Levy. Since the mid-1960s, capacity utilization in manufacturing has been sliding, from 92% to 85% at its last peak in 1989. Office-occupancy rates, too, have been in a long-term decline. Both phenomena stemmed in large part from speculation. When the bubbles—including real estate, junk bonds, art, antiques, even baseball cards—began to burst, that triggered

FEUDING FEDS ARE STILL STIFLING EXPORT JOB GROWTH

Clinton Administration economists have been disappointed with job creation thus far. It's not the number—the 1.2 million jobs created this year are in line with Clinton's campaign promise to raise employment by 8 million during his term. It's the quality of the jobs: Too many are part-time and poorly paid.

One way to create better, higher-paying jobs is to encourage the export sector, where jobs pay wages 22% higher than the overall average. But exporters aren't getting the right kind of help from the Administration, according to a draft study by the private Council on Competitiveness, which looked at national-security controls on high-tech exports. While computer makers had high praise for Clinton's recent easing of export controls on \$30 billion worth of U.S.-made computers, the council found that it was still much too hard to get export licenses. Even worse, the study found that the hard-line Pentagon and the export-oriented Commerce Dept. were battling more fiercely than ever over granting permission for exports, with the relatively neutral State Dept. playing less of a mediating role. According to Richard C. Barth, who directed the study, the council will call for a new decision-making body, drawn from the staffs of the three agencies, that will settle on a single overall policy.

NAFTA COULD KEEP THE BORDER PATROL HOPPING

Proponents of the North America Free Trade Agreement (NAFTA) have been insisting that the pact will cut illegal immigration. Their rationale: A faster growing Mexican economy will lift jobs and wages, reducing the lure of the border. Over the long run, they may be right, but over the next 5 to 10 years, immigration may go up, says agricultural economist Philip L. Martin of the Institute for International Economics.

His reasons? As NAFTA opens agricultural trade between the two nations, products from efficient U.S. farms will enter Mexico and throw low-productive Mexican farmers out of work. These displaced Mexicans are likely to find the way north. Workers from southern Mexico will also be attracted to job growth along the country's northern border where "stepping-stone migration" into the U.S. is more tempting. In all, Martin expects that NAFTA could result in a 10% rise in Mexican immigration.

THE GLOOM IN JAPAN MAY BE LIFTING

Despite all the bad news coming from Japan lately, one economist sees rays of hope for 1994. According to Geoffrey Barker, chief economist in Tokyo for Baring Securities (Japan) Ltd., the turning point is near. Barker sees Japan headed for 2.5% growth next year.

Housing starts, for example, are up and consumers are beginning to decorate their homes out with consumer durable goods, says Barker. While a cool summer caused air-conditioner sales to collapse, there was a mild upturn in purchases of color TVs and VCRs. Month-to-month car sales are also up for the past three months, after almost three years of falling domestic auto sales.

Meanwhile, discounting and low inflation are providing strong incentives for consumers, who are sitting on cash not spent during the cool summer. One vital sign of life: Import volume shot up 8.7% during August. Barker argues that the dollar-based trade surplus has peaked, freeing the overvalued yen to weaken against the dollar. That will give export industries a bit of breathing room, says Barker, and finally signal that Japan's recession has come to an end.

With Larry Holyoke in Tokyo

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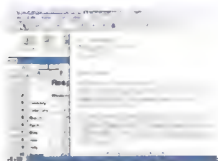
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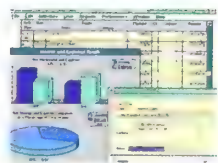


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BONDHOLDERS HAVE LITTLE TO FEAR FROM A STRONGER ECONOMY

The rally in the bond market has come a long way. Since the autumn of 1991, the rate on 30-year Treasury bonds plummeted from more than 9% to less than 6%. But in recent weeks, trips below that 6% mark have not lasted very long. Is the party over?

Probably, for now. Terrified as it is of a strong economy, the bond market has taken a look at some of the snappy data in recent weeks and decided to tone down its euphoria (chart). Bondholders fear that an acceleration of growth could rekindle inflation, which would erode future returns. So bond prices fall, and yields rise.

To be sure, the U.S. economy is taking on a healthier glow. Despite their glum attitudes, consumers led third-quarter growth in real gross domestic product with a strong performance, and they headed into the fourth quarter with the same buying fervor. There are even signs that the sluggish factory sector is shifting into a higher gear, especially as Detroit revs up production amid

surprisingly strong car sales.

But resistance at 6% does not mean that yields are about to spike up. Even if economic growth is picking up in the second half, to an annual rate of 3% or better, that's no cause for inflation worries. It would take more than a year for growth at that pace to push the jobless rate below 6%, and only then would labor-market conditions be tight enough to fuel the wage-price spiral. At the same time, stiff competition—both domestic and foreign—will continue to limit pricing power.

In fact, economic fundamentals justify long-term rates of 6%. Historically, yields have averaged about 2.5 percentage points above the inflation rate—expected to be about 3% this year and next. This kind of reasoning has played an increasingly important role in the bond market this year, now that the budget deficit no longer casts such an ominous shadow over market players.

LOVE THOSE MORTGAGE RATES

Of course, no one has ever accused the bond market of listening to reason. Right now, what the market sees is a better-looking economy with consumers supplying a lot of the vigor. That's especially true in two key areas that traditionally provide broad business impact, housing and autos.

The lowest mortgage rates in a quarter-century are

drawing potential homebuyers off the sidelines and into the market. Sales of existing homes rose 2.6% in September, to an annual rate of 3.91 million, reported the National Association of Realtors. It was the fifth increase in the past six months. And homebuying is generating a spurt in demand for a host of home-related goods.

The September rise was significant in three respects. The NAR said that first-time homebuyers posted an impressive turnout, a sign of broad strength. Also, sales in the West even picked up, suggesting that the depressed California market is showing some life. Finally, the gain pushed the third-quarter average of sales to 3.86 million, only a shade below the 13-year high of 3.87, hit in the fourth quarter of last year.

MOTOR CITY GETS IT IN GEAR

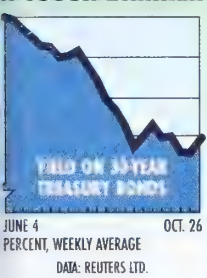
In addition to homes, people are buying cars at a rapid clip. Mid-October sales of domestically made cars and light trucks soared to an annual rate of 13.5 million, far above the 11.5-million pace averaged during the three previous 10-day periods. Car sales alone scored a 7.8-million pace, the best 10-day showing in years. That strength lends credence to the notion that car buying previously had been held back by a lack of inventory.

So instead of depressing overall retail sales, as they did in September, car sales should fuel a strong gain in the October report, especially since demand elsewhere also looks solid. Sales at retail and discount stores in the first three weeks of October were up 0.8% from September, according to the latest *Johnson Redbook Report*.

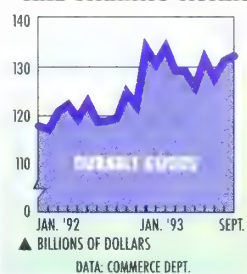
Moreover, Detroit is now in the process of remedying its inventory shortfall. Carmakers are lifting their fourth-quarter production sharply. Based on current output schedules, economists estimate that auto production by itself will add some 1.5-to-2 percentage points to growth in fourth-quarter real GDP. Manufacturing generally will feel the benefits, as business picks up in the industries dependent on Motor City.

Already, factory orders are showing new bounce headed into the final quarter (chart). Orders received by manufacturers of durable goods in September rose for the second consecutive month, lifting bookings to the highest level since February. The broad 0.7% increase was better than most analysts had expected, and it followed a 2.6%

LONG RATES: 6% IS A TOUGH BARRIER



FACTORY ORDERS ARE FIRING AGAIN

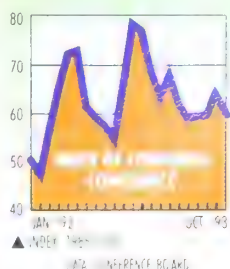


Business Outlook

jump in August, the first back-to-back increase in a year.

The September order gain was even better than it looked. Bookings for commercial aircraft, a small sector with a big impact, fell in September. Excluding that drop, the monthly advance was much stronger.

HOUSEHOLDS CAN'T SHAKE THE BLUES



One growing paradox in the outlook, however, is the apparent decoupling of consumers' confidence and their spending behavior. At the same time households are laying out big bucks, they report declining optimism about the future.

In October, the Conference Board's index of consumer confidence fell to 59.4, reversing the September increase to 63.8

(chart). A drop in the expectations component accounted for the entire decline, but that might more reflect households' views of the direction of the Clinton Administration's economic and foreign policy than the state of their checkbooks. Consumers' assessment of their present economic situation held at the September level, which was the highest in 2½ years.

LITTLE PRESSURE TO RAISE PRICES

Still, the bond market pays more attention to what consumers do, not how they feel. What bond players will be grappling with in coming weeks is whether the pickup in consumer spending—and in economic growth, generally—will rekindle inflation.

For now, the word from the labor markets—where pressure on prices tends to originate in recoveries—is: Don't worry so much. The Labor Dept.'s employment-cost index, a broad gauge of labor-cost pressures from wages, salaries, and benefits, rose only 0.8% during the third quarter. That gain lifted labor costs 3.6% above a year ago. Since the jobless rate peaked in the second quarter of

1992, annual growth in the ECI has stopped slowing, but there has been essentially no acceleration.

Benefits still are the primary fuel under labor costs. Annual wage growth picked up slightly last quarter, to 3% while fringes posted growth of 4.9% (chart). However, unlike wage growth, the pace of benefits continues to slow. They had risen 5.3% in the previous year and 6% a year before that. Benefits will continue to slow due to efforts to reduce health-care costs.

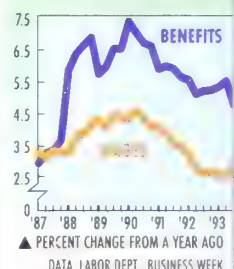
In addition, even given the settlement between General Motors Corp. and the United Auto Workers, unions show little success in pushing up labor costs. Major collective-bargaining settlements continue to result in wage increases over the life of the contract that are smaller than the agreements they replace. In the third quarter wage settlements averaged a 1.6% rise, down from 2.9% the last time the same parties bargained.

Perhaps the most important reason labor costs are unlikely to create price pressures anytime soon is the restraint that faster productivity growth is placing on the pace of unit-labor costs, which typically act as a floor under price growth.

If employment costs are rising at a 3.5% pace, with productivity growing at a 1.5% clip, then unit-labor costs are increasing at only about 2%. Under those circumstances, businesses feel no pressure to raise prices, since 3% inflation allows a healthy margin for profits.

Of course, reasoning like this will never convince a skittish bond market. So, long rates are likely to drift higher on signs of a more vigorous economy. But just in case you missed the opportunity to refinance your mortgage at the rock-bottom low point in rates, economic fundamentals say you might still get another chance later on.

BENEFITS DRIVE EMPLOYMENT COST



THE WEEK AHEAD

NAPM SURVEY

Monday, Nov. 1, 10 a.m.

The October Purchasing Managers' Index probably rose to 51%, from 49.7% in September, according to the median forecast of economists surveyed by McGraw-Hill Inc.'s MMS International.

CONSTRUCTION SPENDING

Monday, Nov. 1, 10 a.m.

The MMS survey projects a 1% rise in September outlays for building projects. Spending had fallen 1.1% in August.

LEADING INDICATORS

Tuesday, Nov. 2, 8:30 a.m.

The index of leading indicators for September is expected to rise by 0.4%,

says the survey. The gain would follow a 1% advance in August.

NEW SINGLE-FAMILY-HOME SALES

Tuesday, Nov. 2, 10 a.m.

September sales of new homes are forecast to increase to an annual rate of 646,000, from 616,000 in August. Sales have dipped for two months in a row, but the lowest mortgage rates in a quarter-century are expected to keep demand on a rising trend.

FACTORY INVENTORIES

Thursday, Nov. 4, 10 a.m.

Inventories in manufacturing likely were little changed in September. Stock levels were flat in August, and they are very low in relation to factory shipments.

PRODUCTIVITY AND COSTS

Thursday, Nov. 4, 10 a.m.

Output per hour in the nonfarm economy probably rebounded last quarter with an advance of about 1.5% at an annual rate. Productivity had fallen in both the first and second quarters. Manufacturing efficiency likely posted another good showing, on the order of 3%.

EMPLOYMENT

Friday, Nov. 5, 8:30 a.m.

October nonfarm payrolls are projected to have risen by 165,000, says the MMS survey, after September's 156,000 gain. Jobs in manufacturing are expected to be unchanged. The jobless rate should remain flat at 6.7%.

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NAFTA: LET'S MAKE A DEAL

CLINTON DESPERATELY NEEDS A WIN—AND THE HORSE-TRADING IS FRANTIC



It's high noon for NAFTA. As the battle over creating the largest trading bloc in the world comes down to its final weeks, President Clinton has launched an all-out campaign to salvage the much-muddled and much-maligned North American Free Trade Agreement. The White House war room is humming again. Cabinet officials are hitting the hustings, offering political cover for wavering lawmakers. And as the Nov. 17 showdown vote in the House approaches, members can hear the familiar sound of money jingling. That means Washington's version of *Let's Make a Deal* is about to begin.

Call him Machiavellian if you will, but President Clinton seems inclined to win NAFTA the old-

fashioned way: by buying it with a last-minute blizzard of concessions. "I'm not used to being in this sewer of boutique politics," says a senior U.S. official.

Whatever the cost of victory, losing would be far worse for the Clinton Presidency. After miscalculations in Somalia and Haiti, Clinton can't afford more pratfalls on the international stage. Moreover, failure on NAFTA could abort his chance to push through negotiations that could lead to the greatest trade liberalization since World War II (table).

HARD SPIN. If NAFTA is defeated, fears abroad about a protectionist drift in U.S. policy could torpedo efforts to meet a Dec. 15 deadline for lowering worldwide barriers through the General Agreement on Tariffs & Trade. Japan might also balk in negotiations, some of which are scheduled to conclude in Janu-

ary, aimed at producing quantifiable results on a variety of market-opening measures. Clinton has been making progress: On Oct. 26, Tokyo agreed to open its public-sector construction market. But a NAFTA debacle would cast pall over a trade summit of Asian Pacific nations that is scheduled in Seattle the day after the NAFTA vote. Frets Representative Bill Richardson (D-N. M.), a key NAFTA supporter: "Are we going to disarm this President the day before he goes to Seattle to talk to several Asian Presidents about trade?"

Such rhetoric is part of a political strategy designed to put NAFTA over the top. Both sides say the momentum is finally swinging the President's way. But even the most optimistic supporters say he still is at least 40 votes short. To win, the White House must persuade three o-

**D DAY
FOR NAFTA**



OCT. 25

Canada elects Jean Chrétien as its Prime Minister. The Liberal vowed during his campaign to renegotiate NAFTA.

NOV. 17

The House is scheduled to vote on the accord. A vote in the Senate, where NAFTA is expected to pass easily, will quickly follow if the pact gets the nod from the House.



NOV. 18-20

President Clinton goes to Seattle for a trade summit with Asian leaders, including China's Jiang Zemin. A NAFTA loss would weaken the President's hand during the talks.

very four undecided House members to support a trade pact that foes have successfully branded as a jobs-loser. "Most people would consider it an uphill battle," says White House Political Director Sean Baggett. "But it's very winnable."

To carry the day, the NAFTA brigade has adopted a battle slogan: "Whatever it takes." In one recent week, Clinton invited 65 members of Congress to the White House. Cabinet secretaries have flown to more than 20 cities over two weeks and schmoozed in more than 15 media markets.

The White House and USA NAFTA, a pro-pact business lobby, also have deluged the districts of undecided members with export success stories. Administration officials repeatedly visited Democratic Representative L. F. Payne's Virginia constituency to argue that local furniture and textile companies will reap a bonanza if NAFTA passes. The pressure helped move Payne from undecided to being an "enthusiastic" supporter.

PROMISES, PROMISES. Such aggressive lobbying would normally ensure victory. But not with NAFTA. Fed by the fervor of independent Ross Perot, America's first Pat Buchanan, and galactic populist Jerry Brown—and a multimillion-dollar advertising campaign by the AFL-CIO—NAFTA has become a glaring

symbol of job insecurity in a global economy.

Backers are using scare tactics, too, however. USA NAFTA ads warn that if America doesn't set up a free-trade zone with Mexico, Japan will. At an Oct. 21 White House meeting, Attorney General Janet Reno told 100 California business and community leaders that immigrants would flood their state if the pact were

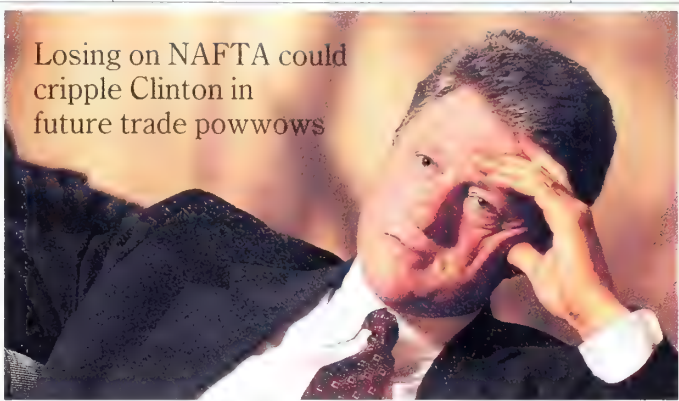
agreement. White House Chief of Staff Thomas F. "Mack" McLarty III promised Representative Joseph P. Kennedy II new emphasis on community-development banks, a pet project of the Massachusetts Democrat. And Bethlehem Steel Corp., a USA NAFTA member, is holding out the prospect of new jobs at a facility in the district of undecided Representative Benjamin L. Cardin (D-Md.).

Lawmakers, however, are clamoring for more deals. To snare key votes in Florida, Louisiana, and the Midwest, the Administration is trying to make rules more favorable to U.S. sugar cane, sugar beet, and wheat growers. Says one pro-NAFTA strategist: "A lot of undecided members have leverage at the end. We have to listen."

NORTHERN CHILL. Knowing that they can't meet their goal of delivering 110 Democratic votes, NAFTA supporters have redoubled efforts to cement GOP backing. USA NAFTA has hired former Republican National Committee Chairman Richard N. Bond to woo undecided GOP members. Clinton even promised Representative Peter T. King (R-N.Y.) he would "personally repudiate" any Democrat who used King's support of NAFTA against him.

To some, there are signs of desperation in the White House campaign. Clin-

Losing on NAFTA could cripple Clinton in future trade powwows



defeated. The audience included companies in the districts of Democratic Representatives Bob Filner, Lynn Schenk, and Norman Y. Mineta—all either opposed to NAFTA or still undecided.

Now, the dealmaking is getting frantic. To persuade Representative Esteban E. Torres (D-Calif.) to sign on, the Administration promised that some money for a border cleanup would be used for loans to small businesses hurt by the

15 The final deadline for GATT. Coming off a no vote on NAFTA, Clinton might not have the votes to break the seven-year impasse in talks to open European markets.



JAN. 1, 1994 If the U.S. has not passed NAFTA by now, Chrétien and Mexico's Carlos Salinas have the right to cancel the accord or renegotiate parts of it.

JAN. 10 Deadline for deal with Japan on opening auto and insurance markets. If Clinton is hurt by trade defeats, Japan may reject targets for products like the Jeep Cherokee.



ton quickly dropped a \$5 fee on airline tickets—to offset the loss of current tariff revenue—when GOP lawmakers balked. And the Administration has hinted it might withdraw from the pact after three years if a study finds heavy job losses. Scoffed AFL-CIO lobbyist Bill Cunningham: "That reinstalls everyone's concern that NAFTA will hurt people."

The Oct. 25 victory of Canada's Liber-

al Party, which considers NAFTA a bad deal for Canadian workers, sent the Administration a chilling message. "NAFTA was a big issue," says undecided Representative Toby Roth (R-Wis.). "American politicians have to take [the Canadian elections] into the equation."

The pact's foes concede that Clinton's use of Presidential powers will further narrow the gap. But for Clinton, the dif-

ference between getting close and winning hinges on how many treats he can come up with between Halloween and the Thanksgiving congressional recess. The sight won't be pretty, but that's what it may take to stave off a chain of trade humiliations for Clinton.

By Douglas Harbrecht, Richard S. Dunham, and Susan B. Garland in Washington

Commentary/by Aaron Bernstein

AN ANTI-NAFTA ARGUMENT YOU HAVEN'T HEARD



For months, a media juggernaut has rolled over anyone who challenged the North American Free Trade Agreement (NAFTA).

That's because economists have won the day by repeating their graduate school lessons like a mantra: History shows that free trade is good, so NAFTA will benefit the U.S. economy. Those who say otherwise are dismissed as ignorant or irresponsible.

But the argument overlooks the treaty's biggest impact, which won't be on trade but on investment, mainly by U.S. companies in Mexico. Most studies rely on the 19th century theory of free trade, which assumes capital doesn't cross borders. Result: The studies miss the drain of U.S. investment dollars—which began several years ago in anticipation of the pact's becoming law.

Some quick arithmetic suggests that investment lost under NAFTA could outweigh potential gains from increased trade. "Most economic models of NAFTA don't look at capital movements," says Edward E. Leamer, a trade economist at the University of California at Los Angeles. "And it might give a different answer as to whether NAFTA is good or bad for the U.S. work force if they did."

"NO ONE HAS LOOKED." Indeed, of 19 NAFTA forecasts reviewed by the Congressional Budget Office (CBO), just five looked at the issue. Four of these assumed—bizarrely—that any investment surge in Mexico would come from somewhere other than the U.S. The only study delving into the issue, by Robert K. McCleery, an American economist at Kobe University in Japan,

predicted that NAFTA would displace about \$2.5 billion of investment from the U.S. to Mexico annually.

What does that mean for U.S. jobs? McCleery doesn't ask, because he assumes the U.S. economy will fill in lost jobs with new ones. But Georgia State University economist Donald Ratajczak figures that \$1 billion of U.S. investment generates about 30,000 jobs. As-

some shaky assumptions about exports, too. Hufbauer and Schott, like most others, assume that higher exports are a net increase for the U.S. economy. But the recent export surge to Mexico wasn't fueled by Mexicans on a spending spree. Some 37% of it went to *maquiladoras*, which ship most of their output right back to the U.S., according to a recent General Accounting Office study. That's not a net boost to U.S. gross domestic product—it's production lost to another country.

Moreover, the CBO found that a further third of U.S. exports to Mexico consisted of capital goods. If much of this money comes from U.S. companies closing plants at home and setting up new ones in Mexico, these exports aren't a net gain for the U.S. either.

Lets take an example: Say General Motors Corp. shuts an Ohio plant that had cost \$1 billion to build and that employs 30,000 people. Then, it builds a factory in Mexico, buying \$1 billion of equipment from U.S. makers. Hufbauer and Schott figure the economy will be swelled by \$1 billion in new exports—enough, they estimate, to create 19,600

new jobs for American workers. But the investment and 30,000 jobs lost in Ohio are left out of the equation.

Trade theory is convincing—about the benefits of increased trade. But it doesn't address what's happening between the U.S. and Mexico, which are merging their economies. If the effects of integration overwhelm the trade gains, the U.S. could be the loser. And economists simply don't pay enough attention to that possibility.

Bernstein writes about labor issues for BUSINESS WEEK.

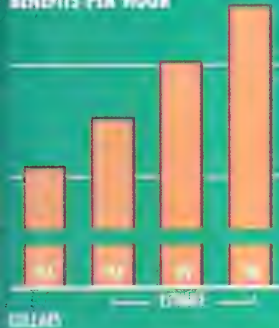


suming a \$2.5 billion annual capital outflow, that would mean 375,000 potential new jobs lost over five years—more than wiping out the 170,000 gain that Gary Clyde Hufbauer and Jeffrey J. Schott of the Institute for International Economics in Washington predict will occur in five years if NAFTA passes. Bruce G. Arnold, the economist who wrote the CBO paper, acknowledges that investment outflows could wipe out potential job gains from NAFTA, but he admits that "no one has looked at it much."

The pro-NAFTA argument rests on

GM'S NEW LABOR PACT WILL PUSH UP COSTS...

WAGES AND
BENEFITS PER HOUR



DATA: SHIRLEY C. BENNETT & CO.



FERRETTI: WHO
WANTS A 200-
MILE COMMUTE?

...BUT PRODUCTIVITY SHOULD SOAR

VEHICLES PRODUCED
ANNUALLY PER
WORKER*



*BASED ON ANNUAL PRODUCTION OF 4.7 MILLION VEHICLES
AND WORK FORCE REDUCTIONS OF 25%, TO 200,000 BY 1996
DATA: BUSINESS WEEK

MAYBE GM DIDN'T GET SUCH A BAD DEAL

The UAW contract gives Jack Smith critical flexibility

In 1990, Robert C. Stempel gambled \$3.35 billion that General Motors Corp. could shrink itself down to an efficient size without mass layoffs of factory workers. The former GM CEO pledged that amount in jobless benefits for the company's last United Auto Workers (UAW) contract, only to watch GM slide into a brutal recession that burned the whole pot—costing Stempel his job. Now his successor, Jack Smith, has made an even bigger jobless bet of \$3.9 billion as part of an expensive new UAW contract he O.K.'d on Oct. 24. All told, the pact will raise GM's blue-collar pay costs by 16% over three years.

Will history repeat itself? Smith could be off a cliff, too, but he has a much better chance than Stempel of coming out a winner. The new contract gives him the freedom to slash some 65,000 blue-collar jobs by 1996, cutting GM's total work force to 200,000. If Smith pushes through on the cuts, GM's productivity could jump by nearly a third, analysts say, because the company would have fewer workers making the same number of vehicles—assuming, of course, that its sales won't tank, as they did in the recent recession. That would be enough to close the company's yawning \$800-a-car labor cost gap with Ford and Co. "They'd be dead on [with Ford] in productivity," says Wertheim coeder analyst John Casesa.

REMENT HIT. If the fledgling North American sales recovery stumbles, though, all bets are off. After the deal struck, Standard & Poor's Corp. checked its credit outlook from neutral

to negative, signaling the possibility of a credit downgrade in the next year or two if the economy turns sour. The rating agency worries about "turmoil in the industry similar to what we have just been through," says Scott Sprinzen, S&P's director of corporate finance.

There's no question that GM's new labor pact will be costly. The deal, which closely tracks the ones just signed by Ford and Chrysler, will lift GM's wage-and-benefit costs to about \$52.50 an hour by 1996, according to estimates by Paine Webber Inc. (chart). Much of the increase will go into higher retirement benefits, pushing up the company's unfunded pension liability from \$19 billion to about \$24 billion.

Bad news, to be sure, considering GM had hoped to cut its labor costs. But the company clearly has the wherewithal to absorb the hike. Take its pension problems. GM figures investment income will be enough to make up most of the shortfall in its plan. Under the old pact, it had to ante up about \$8 billion in new funds by the end of the decade. The new contract will add a bit to that burden by raising GM's payments 13% over the life of the contract, to \$2,030 a month per worker, or about another \$2 billion by 2000. But GM should have cash to foot the bill. Casesa says GM will have \$18 billion in free cash flow over the next three years—even after capital spending outlays of \$7 billion a year.

Such calculations are one reason Wall Street, which knocked down GM's stock by 1.25, to 44.75 a share right after the deal, has reconsidered. GM's share price bounced back to about 47 as analysts ran more numbers on the agreement.

Other elements of the contract may not be as onerous as they seem, either. For instance, GM may never have to spend all of the \$3.9 billion it pledged to pay the wages and benefits of workers idled during the next three years. Indeed, Sean McAlinden, a University of Michigan economist, figures the final payout will be more like \$2 billion. That's because GM may well be able to keep the tab down with early retirement packages, such as the one taken by 16,500 UAW members in March.

OFF TO BUFFALO. New flexibility GM won to require laid-off workers to relocate will help to control costs, too. UAW members will have to accept work in plants 100 miles or more away from their former jobs or risk losing their jobless benefits. Before, workers could turn down posts more than 50 miles away and still draw up to 100% of their pay. GM already has moved 188 people from a Syracuse (N. Y.) parts plant to a Buffalo engine factory under a pilot program. An additional 112 people refused jobs and will drop out of GM's expensive safety net. "Are you going to drive 200 miles each day to get to and from work?" asks John Ferretti, 51, a repair worker at GM's Poletown plant in Detroit, which builds Cadillacs.

Not a happy prospect. But given the depth of GM's troubles, it's the kind of sacrifice more GMers may have to swallow. And making them now may be the only way for GM to weather the next industry downturn.

By David Woodruff in Detroit

If GM keeps its
market share
and Smith
makes his job
cuts, he could
close the cost
gap with Ford

PARAMOUNT: DO I HEAR \$11 BILLION?

Big investors expect yet another round of bidding

It was a fine display of corporate synergy, to be sure. A converted cafeteria at Viacom's Manhattan headquarters brimmed Oct. 25 with physical testament to Viacom's new \$10 billion bid for Paramount Communications Inc. Star Trek figurines mixed it up with Ren & Stimpy jackets. An eight-minute video plugged Viacom's MTV Networks and Paramount's New York Knicks basketball team, to the lilting strains of a specially penned rock song: "Don't you know the urge? Merge, merge, merge."

No, it wasn't an especially good song.

And the rhetoric, too, is wearing thin. Viacom Chairman

for the rest. And while Allen won't disclose Diller's next move, other sources involved in the bidding indicate that QVC soon will take its offer up a notch.

What's Paramount worth? The personal feud that has emerged between Diller and Redstone may have obscured the hard numbers. But an \$80-a-share bid comes to roughly 21 times Paramount's cash flow, figures S. G. Warburg & Co. Vice-President Lisbeth R. Barron—substantially more than the 16 times cash flow Matsushita Electric Industrial Inc. paid for MCA Inc. in 1990. With the allure of a 500-channel world brightening Paramount's asset base, Barron figures the company could fetch up to 23 times cash flow—putting Paramount's price tag at nearly \$90 a share, or roughly

them worry about the future of Paramount."

Indeed, neither QVC nor Viacom appears to have won major converts to its cause. Few investors have bought into Viacom's vision of Paramount making films that feature MTV characters like Beavis and Butthead and new cable channels that feed from Paramount's library of 1,800 films and 6,100 television programs. Just the same, not many stockholders are lining up behind the less specific plans laid out by Diller.

DILLER OF AN OFFER. For now, investors appear to be leaning ever so slightly toward Viacom, which has board support and has passed key tests put forth by federal regulators. To underscore its determination to grow aggressively—and to do it with Viacom—Paramount Oct. 26 announced a joint venture with Chris-Craft Industries Inc. to create a fifth TV network, linking Paramount's four independent TV stations with stations controlled by Chris-Craft.

The next announcement



PARAMOUNT

SUMNER'S AND BARRY'S CLOSEST FRIENDS

The top five holders of Paramount Communications common stock*



CAPITAL RESEARCH & MANAGEMENT | **8.0%**

GABELLI FUNDS | **6.2%**

WELLS FARGO | **2.1%**

SOUTHEASTERN ASSET MANAGEMENT | **2.1%**

BANKERS TRUST | **2.1%**

*124.3 MILLION SHARES OUTSTANDING

DATA: BRIDGE INFORMATION SYSTEMS INC., BUSINESS WEEK

Sumner M. Redstone, even more ebullient than usual, told reporters: "This merger is not about two plus two equaling four, but six, or eight, or ten." But after two months of talk about strategic fit and shareholder value, it has become clear that the battle for Paramount has little to do with either: "In the end, it's usually about money—who's offering the most and the timing of when it's offered," says Herbert A. Allen, the investment banker who is advising QVC Chairman Barry Diller.

WORTH WHAT? Indeed, within days of each other, QVC and Viacom have put new bids on the table that dramatically raise the cash stakes: Both are offering to pay roughly \$80 cash a share for 51% of Paramount's stock, exchanging stock

\$11 billion. Some Wall Street analysts speculate that the company could be worth up to \$100 a share.

Paramount's largest stockholders are clearly anticipating yet another round of bidding. After talking with both the Redstone and Diller camps, Mario Gabelli and Capital Group's Gordon Crawford, Paramount's two largest investors (table), are said to be looking for higher offers before committing.

So are others. "Basically, what it comes down to is getting the best absolute dollar value," says Brad Nelson, an analyst at IDS Financial Corp. Adds DeWitt Bowman, chief investment officer at giant CalPERS: "I don't believe all of this stuff about synergy anyway. I'd just as soon take the money and let

it likely to come from Diller. He is until Nov. 21, when Viacom's offer expires, to raise his bid, though he may do so by early November. He has ruled out an all-cash bid, says an insider, and feels he has enough cash to substantially boost his bid without taking on new partners. Earlier talks with BellSouth are on hold, says this insider, "but if we need to find more partners to increase our bid we know where to find them."

Redstone has left the door open for future equity partners, as well. He'll likely find some: In this battle, hunting down other peoples' money hasn't been much of a problem. Actually spending to do the deal is proving more difficult.

By Ronald Grover in Los Angeles, and Lori Bongiorno in New York



GEORGE M.C. FISHER

AGE 52

EDUCATION BS, University of Illinois; MS engineering, PhD applied math, Brown University.

CAREER PATH Started at Bell Labs as a researcher in 1965. Joined Motorola in 1976. Climbed the ranks of the mobile radio and paging units, spearheading Motorola's 1982 move into Japan in paging. Named CEO in 1988.

PROFILE Quiet, self-effacing, cerebral. A passionate adherent to Japanese production and quality techniques. Chairman of the high-profile Council on Competitiveness, a public policy group.

PERSONAL Wanted to be pro baseball player but was sidelined by college injury.

TO: GEORGE FISHER FROM: HOW TO FIX KODAK

can be done. Just follow these not-so-simple instructions...

As the new CEO at Eastman Kodak Co., you've just accepted one of the toughest jobs in American business. Your new company has been mismanaged for at least a decade, its employees are dispirited, the talent in its executive ranks is thin. But you have promising raw material to work with. Unlike IBM, Kodak still posts reasonable operating profits, and there are no revolutionary new technologies destroying its core business—yet. The yellow Kodak box is one of the world's best brand franchises, and Kodak retains two-thirds of the U.S. film market.

There's still time to save this 113-year-old giant. But you'll have to act fast. Here are some critical issues that must be addressed:

Cost-cutting. You never had to do much of it at Motorola, but it's a big issue here. Your predecessor, Kay Whitmore, is fired for doing too little, too late. Kodak is bloated, and Wall Street figures 10,000 of its 110,000 workers should be let go. That may be about right, or it may be slashing too deeply into a complex organization. Whatever number you decide on, do it in one sharp blow: Morale is too low for drawn-out agony.

Cost-cutting has to go deeper than staff-slashing. Everything Kodak does is gold-plated: Kodak's research and development spending, at \$1.6 billion, or 7.9% of sales, are far too high. Too much money is lavished on fruitless projects.

Culture. Kodak is far too inbred in its Rochester (N.Y.) base. Most high-level executives are lifers. You'll be the first CEO from outside the company. Bring in new talent at all levels, particularly marketing expertise, which is sorely lacking. Should parts of the company be moved out of insular Rochester?

Then, work on toughening up the company's too-gentle and nonconfrontational culture. One former exec jokes that he actually liked it when people swore in the corridors at Kodak; at least it showed a spark of passion. You need to establish a tougher atmosphere in which managers are held accountable.

Long-term strategy. Kodak has badly fumbled here. While management feared the threat to its core photography market from digital imaging, it never figured out how to respond. Billions have been wasted on research aimed at remaking the company into an electronics player. Billions more went into a dis-

credited diversification effort.

You should turn back the clock 15 years and refocus on the core photography business. Sure, digital imaging will inevitably eat into this market. But the impact could be a decade or more away. In the meantime, figure out how to combat cheaper private-label film, which is stealing market share in the U.S. Consumers are finally realizing that most films are about the same, yet Kodak charges 20% more. Should you cut Kodak's prices, or sell private label yourself? Whitmore never settled on any strategy—you must.

Asset sales. Kodak needs to reduce its \$8.7 billion in debt and refocus itself. The struggling copier division should be sold or put into a joint venture. Kodak doesn't have the heft to beat the Japanese in that game.

Then there's Sterling Drug Inc. Let's face it, that 1988 acquisition for \$5.1 billion was

a bad buy. Still, Kodak has lavished huge amounts on drug research and may have some promising new products in three to five years. Besides, Sterling won't fetch much in this market. Hang on to it—at least for a while.

Organizational structure. Kodak's organization lacks clear lines of authority. It's rife with petty fiefdoms, and rarely is anyone held responsible when things go wrong. One example: When Kodak was introducing the Photo CD last year, many staffers were convinced that commercial buyers were the target market. But management insisted on heralding it as a consumer electronics item. Why? Because the project was conceived and run by the Consumer Imaging group. Insiders say those championing commercial uses had to operate almost as a guerrilla movement. Guess what? Photo CD has been a consumer flop.

Sound like a tall order? It will be tougher than your Motorola job, where in 1988 you took the helm of a company already on an upward trajectory. Granted, sales have doubled in your five years and the stock price has increased at a 26% compound rate. Indeed, you're leaving Motorola in good shape for your likely successor, Assistant Chief Operating Officer Christopher B. Galvin.

But you haven't had to fire thousands of people or rejuvenate a tired culture. And marketing, a key need at Kodak, is one of Motorola's few weak spots. Good luck—you'll need it.

By Mark Maremont in Boston, with Lois Therrien in Chicago



MAYOR MILLS OF NEEDLES, CALIF., WORRIES ABOUT THE COLORADO

HAS US ECOLOGY CLEANED UP ITS ACT?

Letting it build a nuclear dump is no way to find out, say Californians

At the Hungry Bear restaurant off old Route 66 in Needles, Calif., nothing gets people more worked up than talking about US Ecology Inc. and its plan to build a nuclear waste dump in the Mojave Desert, 23 miles west of town. "They've shown up with every expert known to man," complains Roy Mills, mayor of Needles, population 5,600. "They give us a pat on the head and tell us we're not smart enough to understand." Across town at Denny's, the talk is the same. "They tell us the dump is going to be high-tech," says Larry Ford, a railroad conductor. "Heck, what's so high-tech about digging a hole, filling it up, and covering it with dirt? My dog does that."

US Ecology, a Louisville subsidiary of Houston's American Ecology Corp., has drawn fire over its scheme to bury nuclear waste in unlined trenches just 19 miles from the Colorado River, the biggest source of water for Southern California. The company stands to take in as much as \$3 billion in revenues. But critics contend US Ecology has chosen the easiest, least expensive way to build the Ward Valley dump, ignoring suggestions by the Environmental Protection Agency and local regulators that it should provide plastic trench liners and better monitoring equipment. What

worries opponents most, though, is US Ecology's long trail of leaky radioactive dumps and lawsuits. "US Ecology is not fit to run Ward Valley," says U.S. Senator Barbara Boxer (D-Calif.).

In Kentucky, for example, US Ecology's Maxey Flats dump was put on the EPA's Superfund list of most polluted sites in 1986, after plutonium and other radioactive wastes were discovered leaking from the dump. The Illinois attorney general filed suit against the company in 1978, seeking \$97 million in damages after radioactivity polluted a lake near US Ecology's Sheffield dump. North Carolina rejected a US Ecology proposal in 1984 to build an incinerator there, citing the company's troubled record. And earlier this year, Nebraska turned away US Ecology over worries about the company's choice of a dump site.

US Ecology acknowledges it has had problems at some sites but insists its operations have improved. It is even applying to operate in Nebraska. When it managed Maxey Flats and other sites in the 1970s and early 1980s, says James Shaffner, the company's assistant manager for California operations, less was

known about handling radioactive materials and safety regulations. "We were not well defined in the ecological awareness of the country," he says. In 197

US Ecology agreed to close Maxey Flats in return for the state's assuming liability. And in 1988, the company paid \$1 million to settle the Illinois suit, without admitting any wrongdoing.

US Ecology's track record is in the spotlight as Interior Secretary Bruce Babbitt prepares for upcoming hearings on whether to transfer federally owned Ward Valley to the state—allowing US Ecology to proceed. Babbitt is under pressure from Congress to approve the land giveaway, which would help fulfill a 1985 law mandating the creation of a network of low-level nuclear-waste sites.

LAX NOD. As the debate heats up, US Ecology's Shaffner says the company has become the target of "a concentrated disinformation campaign by the entire antinuclear movement." Critics argue that Governor Pete Wilson was lax in giving US Ecology the nod to develop Ward Valley, after three other companies, including Westinghouse Electric Corp. and Morrison Knudsen Corp., bowed out over liability concerns. The state's Health Services Dept. says it studied US Ecology's proposal exhaustively, finding the company "more than qualified." Others say Wilson need only have looked across the state line to get a different picture.

Nevada Governor Bob Miller ordered the shutdown of US Ecology's Beatty facility in January, after a string of problems dating from 1976. That's when

US Ecology employees were found selling radioactive tools and other equipment to local residents. US Ecology says it has since dismissed those workers. More recently, the dump has been shut down many times for safety violations. The company says the shutdowns, for minor infractions, were motivated largely by politics. But Governor Miller says: "We were in constant disagreement with them about the amount of radioactive waste they were bringing

US ECOLOGY'S CHECKERED HISTORY

MAXEY FLATS, KY. Operated waste disposal site until leaking plutonium forced a shutdown in 1977. In 1986, the EPA put the dump on its Superfund list. Cleanup could cost up to \$100 million.

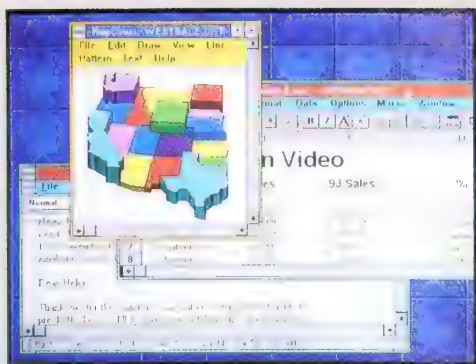
SHEFFIELD, IL. State attorney general sued for \$97 million in 1978 after finding radioactive waste leaking. In 1988, the company agreed to pay \$8 million for cleanup.

BEATTY, NEV. Closed several times by regulators for radioactive violations. Nevada ordered it closed permanently in January, 1993, but now allows US Ecology to bury nonnuclear waste.

US Ecology acknowledges some past problems, but says it has improved operations.

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in. I certainly did not have a good working relationship with them." US Ecology's offer of a \$20 million donation to the state's cash-strapped prison system if allowed to keep its dump open didn't change Miller's mind.

US Ecology has shown an uncanny ability to wiggle out of tight spots. Take Maxey Flats, which it operated from 1963 to 1977. In 1992, after a six-year

battle with the EPA and Kentucky, a U. S. District Court judge ruled that the company was not liable for any of the cost of cleaning up the mess—estimates vary from \$34 million to \$100 million.

Now, US Ecology is trying to win friends in the Golden State. Since 1986, the company has made campaign contributions in California of more than \$130,000, according to state records. Re-

cently, US Ecology shipped new computers to the Needles high school. But this isn't going to cut it with Mayor Mills. "I consider that a bribe," he says. Shaffner says: "Anything we do is going to be considered in a negative light." Maybe, but it will take more than a few PCs to convince the people of Needles that this hole in the ground is a good idea.

By Eric Schine in Needles, Cal.

IMMIGRATION

AN IMMIGRANT-WORKER SCHEME COMES UNDER FIRE

Are companies replacing citizens with lower-paid foreign professionals?

Even in an industry used to brutal competition, the past two years have been a rough ride for Digital Equipment Corp. As part of its effort to return to profitability, the company has cut 21,446 U. S. jobs since late 1991. Yet at the same time it was aggressively downsizing, DEC was applying for more than 1,100 visas for foreign workers.

A DEC spokeswoman says that the computer maker requested the visas to speed transfers from its operations in India to the U. S. and that it actually brought only 50 foreigners stateside. But to unions and professional associations, this episode is worrisome—and all too common. They believe that U. S. corporations may be replacing thousands of American workers with often lower-paid foreign professionals—experts in everything from computer programming to developing blood substitutes. Imported workers are "putting American taxpaying citizens on the street," complains James L. Schneider, president of the Northern California chapter of the National Association of Computer Consultant Businesses.

That's why the Labor Dept. on Oct. 6 quietly proposed legislation to crack down on the H-1B visas used to bring skilled foreign labor into the U. S. The Administration's measure, which has not yet been introduced in Congress, would bar companies from laying off Americans in the occupations they want to fill with H-1B workers. It also would force employers to take steps toward training Americans for those jobs.

"MISGUIDED." Special skills visas have encountered controversy before. Under pressure from labor, the 1990 Immigration Act imposed an annual ceiling of 65,000 visas a year for "specialty occupations." The visas last a maximum of six years. And employers are supposed to pay the visa holders either the same as

their U. S. workers or the regional norm, whichever is higher. During the past three years, more than 100,000 companies have requested papers—especially for physical therapists, civil engineers, and computer programmers (table).

But concern about stubbornly high unemployment has prompted Labor to beef up enforcement against program abusers. U. S. computer consultants, for in-

denies wrongdoing and is negotiating to reduce the charges and penalties.

Companies gearing up to fight Labor's legislation argue that a few abuses shouldn't kill a program that helps U. S. competitiveness. American companies need to import specialists unavailable in the U. S. "It's important to get new blood into the organization," says Paul Elmer, international human resources director at Motorola Inc.

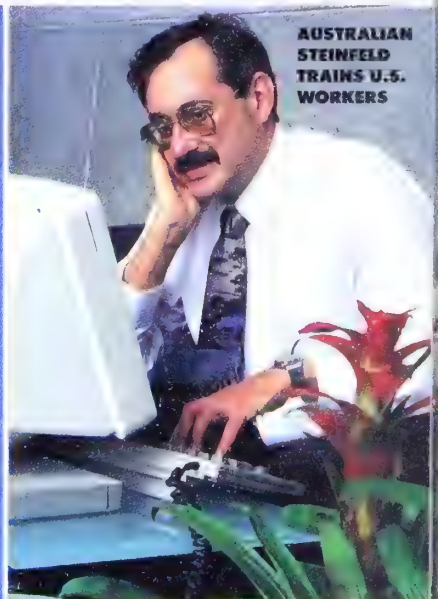
NEW JOBS. These foreign experts often allow companies to launch new operations that can employ more Americans. Australian software engineer Leonard A. Steinfeld, for instance, has been in the U. S. since 1990 training employees at Atlanta-based Masterpack Inc. to install and modify a software accounting package he designed in Sydney. Thank-

THE VISA MILL

Employers granted approvals to hire foreigners for computer-related jobs in the U.S. from Oct. 1, 1991 to May 12, 1993

	Jobs approved
TATA CONSULTANCY SERVICES	1,255
DIGITAL EQUIPMENT	1,129
SYNTEL	930
BORLAND INTERNATIONAL	800
HCL AMERICA	700
COMPLETE BUSINESS SOLUTIONS	541
VSLI TECHNOLOGY	458
INTEL	316
TANNER COMPUTERS	267
ORACLE	258

SOURCE: LABOR DEPT.



AUSTRALIAN STEINFELD TRAINS U.S. WORKERS

stance, charge that foreign "job shops" violate the rules. These electronic sweatshops contract out programmers from India, China, the Philippines, and elsewhere at less-than-prevailing wages.

On Aug. 9, Labor hit Complete Business Solutions Inc., a Farmington Hills (Mich.)-based employment agency that places programmers from India, with \$180,000 in penalties for failing to pay the required wage rate and for paperwork violations. Tim Manney, CBST's chief financial officer, says the company

to Steinfeld, "we are able to employ 10 people," says Masterpack President Sam Kaye. "We would not be able to get the product off the ground without him."

Business believes that the way out of the dilemma is to give Labor more power to ferret out abuses in the H-1B program. But U. S. workers want further curbs. With anti-immigration sentiment high, lawmakers will have a tough time crafting a compromise that satisfies business.

By Catherine Yang in Washington



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Commentary/by Joan O'C. Hamilton

CLONING EMBRYOS: AN ETHICAL EMERGENCY

Twins born 20 years apart... big families full of carbon-copy children... a frozen embryo that can be thawed and plundered for therapeutic tissues for its living twin. Welcome to *Tales from the Petri Dish*, a sci-fi chiller spinning among medical ethicists and the public. The wild imagining began when researchers at George Washington University Medical School reported in mid-October that they had successfully created genetically identical twin and triplet embryos out of a single human embryo.

To be sure, there's a huge leap of time and technology from the published feat to those imaginings. The GW scientists took pains to point out that they completed their experiment on nonviable embryos they never intended to implant. In part, they said, their goal was to stir discussion.

They did that, all right. For many Americans—some of them not yet comfortable with gene-spliced tomatoes—the news was unsettling. That's partly because the study was hyped by some media as opening the floodgates on human cloning. But the truth is, there is no binding regulation or guideline that would keep scientists from creating viable embryos—or going further.

"SERIOUS STUFF." This experiment has implications beyond the infertility arena: Embryonic cloning could be a valuable tool for studying human development, genetically modifying embryos, and investigating new transplant technologies. Such possibilities are the reason that biotech must proactively embrace ethical guidelines for this research.

The biotech industry is constantly absorbing new developments—from real-life *Jurassic Park*-style research to the use of animal genes in vegetables—that make it vulnerable to unexpected bullets. Carl Feldbaum, president of the Biotechnology Industry Organization (BIO) in Washington, isn't dismissing the embryo flap. "This is real serious stuff that goes very deeply into peoples' psyches," he says. Feldbaum says he'll raise the issue of the association's stand on ethical guidelines at BIO's December board meeting.

Someone should. As biotech's work becomes more sophisticated, the public will more often be asking an uncomfortable question: What will scientists come up with next—and should they be stopped? Biologist Ruth Hubbard of Harvard University, author of a critical look at the use of genetic manipulation to solve medical ailments, says she doesn't think this particular experiment is a problem, "but it shows people can do things that horrify members of the public—and there's no coherent policy."

Unfortunately, regulation of biomedical research ethics has been spotty and half-hearted for years. The U.S. allowed its only national bioethics commission to expire in 1989. As for in vitro research, the Reagan Administration cancelled federal funding a decade ago. So work in that arena has been privately funded—and unregulated.

There is a good example of how the biotech industry has benefited from ethical supervision: The Recombinant-DNA Advisory Committee to the National Institutes of Health actively assesses the ethics and advisability of gene-therapy experiments in a public forum. AIDS researcher Daniel Hoth, now senior vice-president of Cell Genesys, believes such responsible treatment has greased the skids for an "explosion" of gene-therapy experiments with little public opposition.

FIRM STAND. The argument some ethicists have made that our society is too morally upright to even ponder cultivating embryos as tissue donors is unrealistic. In 1990, Abe and Mary Ayala admitted they conceived a baby girl to provide donor bone marrow for an older sibling dying of leukemia, and transplant centers say the Ayalas are not alone. Now, it's time to begin a debate on what new means

will be available to such parents.

Dr. Elena Gates, an expert in reproductive issues at the University of California at San Francisco, says she's sorry it takes a *fait accompli* such as GW's embryo cloning to get the right people talking ethics. On the other hand, she says, "I prefer this to announcing that Mrs. Jones just gave birth to twins—and she's got two more in the freezer."

Hamilton covers biotechnology for BUSINESS WEEK.

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EDITED BY KEITH H. HAMMONDS

A CORPORATE GADFLY BUZZES AWAY

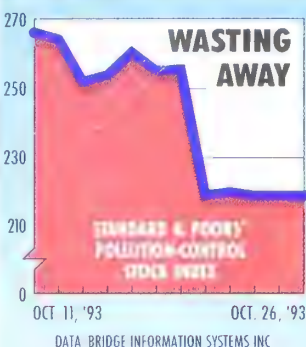
► Corporate CEOs and boards can breathe a sigh of relief: The activist shareholder rights group, United Shareholders Assn., is closing its doors. Corporate raider T. Boone Pickens Jr. founded the group in 1986, at the height of merger mania, to use regulatory reform to end the abuse of shareholders. Under President Ralph Whitworth, the group made waves with its annual list of companies that pay the least

attention to shareholders' concerns. Dozens of companies changed board structures and executive-pay plans to stay off the list. Whitworth says USA is disbanding because its job is done. He may be heading off to raise money for a fund that invests in shareholder-friendly companies.

A DRUGMAKER IS BACK FROM DISGRACE

► Four years after some of its former top officers pleaded guilty to bribing Food & Drug Administration officials, a remade Pharmaceutical Resources is now in the clear. The generic drugmaker, once known as Par Pharmaceutical, on Oct. 26 announced that the agency will review its applications for new products after refusing to do so for four years. CEO Kenneth Sawyer, a former Philadelphia assistant district attorney who took over in 1989, has purged some 37 managers. Now, he aims to win approvals for 25 pending generic-drug applications and reintroduce some older products to rebuild the company's line to more than 100 drugs again.

CLOSING BELL



A TRASHMEISTER DOWN IN THE DUMPS

For years, WMX Technologies Inc. cleaned up by cleaning up. But on Oct. 19, the trash king announced a stock-bashing \$127.2 million third-quarter loss, on a 3% sales gain. Most of the hit came from a \$363 million aftertax writedown of its hazardous-waste businesses. Now, CEO Dean Buntrock has dispatched WMX President Phillip Rooney to trim costs at the company's core Waste Management Inc. unit. Will it work? Management blames a glut of dump and incinerator capacity for much of its strife, but Standard & Poor's Corp. argues that competition and the growth of WMX's own low-margin recycling business are the real long-term concerns.

THIS CLOROX MAN MUST AVOID BLEACH

► Think Clorox, and you think liquid bleach. But the company's new head of U.S. operations can't go near the stuff until 1995 under a legal settlement with Procter & Gamble announced on Oct. 26. Neil DeFeo quit P&G as head of international planning for laundry and cleaning products to join Clorox last July. P&G fired off a lawsuit, fearing misuse of trade secrets. Clorox sued back. The companies' settlement bars DeFeo from managing Clorox household cleaning products until March, 1994, powdered bleach until September, 1994, and liquid bleach until January, 1995. PaineWebber analyst Andrew Shore says those products constitute 60% of Clorox' U.S.

HEADLINER

SURGICAL CARE GETS A ROSY SECOND OPINION

Over 11 years, Joel Gordon has quietly built Surgical Care Affiliates Inc. into the nation's second-largest operator of outpatient surgery centers. So his unsolicited offer on Oct. 25 to acquire market leader Medical Care America Inc. caught investors by surprise. The hostile bid, a stock deal valued at nearly \$1 billion, seemed all the more unusual coming in the normally chummy health-care industry.

No apologies from Gordon. After getting chilly responses to two private overtures, Surgical Care's CEO says he had to force the issue by approaching Medical Care's shareholders directly. "I've always taken a conservative approach," he says, "but this

was so compelling and made so much sense that we had to make a move. We were getting anywhere with [Medical Care's] management."

He may now. Medical Care shareholders say they want the deal to happen. Indeed, Medical Care shares gained \$5, to \$24, after the announcement. Says one of the big holders: "Medical Care is still flourishing. We would find much more comfortable with SCA's management running things." Surgical Care has posted record profits for three consecutive quarters; Medical Care's earnings, hurt by troubles in its home-infusion therapy unit, dropped 35% in the year's first half.

By Stephanie Anderson For



sales. DeFeo will stick to products such as charcoal briquettes and kitty litter.

RICHARDSON CATCHES A BIG ONE

► Notch a win for Denny's boss Jerome Richardson. Richardson, a 1959 Baltimore Colts receiver, led the expansion group that won the franchise from the National Football League's 28 owners on Oct. 26 to field a team in Charlotte (N.C.). The victory caps a tumultuous year in which Richardson labored to defuse charges of racial discrimination at some of his restaurants while he raised funds for a \$160 million stadium.

But the owners couldn't agree on a second expansion site. The financial picture of the favorite St. Louis cloud with the departure of Bush family heir James Orthwein from a group of potential owners. That leaves Baltimore and long shots Memphis and Jacksonville, Fla., still in the running to become the NFL's 30th team.

WHAT'S AHEAD FOR PARK'S EMPIRE?

► The death of Roy Park, 83, has thrown into question the future of his media empire. Park Communications in Ithaca, N.Y., owns eight TV stations plus a string of 22 radio stations and 144 small-town newspapers. Its revenues are about \$160 million. Park, who helped coordinate Thomas Dewey's 1948 Presidential campaign and co-founded the Duncan Hines food business, started buying media properties in the early 1960s. He owned 89% of Park Communications and has no children working in the company. Park stock jumped 11% on the news, to 23%. A spokesman says details of the estate are not yet public, but adds that Park wanted to keep the company intact after his death.

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THE NEW MATH OF HEALTH-CARE REFORM

In selling the sweeping health-care reform that he wants to be his monument, Bill Clinton always cites six guiding principles: security, simplicity, savings, quality, choice, and responsibility. But when the President and Hillary Rodham Clinton trekked to Capitol Hill on Oct. 27 to present computer disks bearing his 1.5-megabyte Health Security Act, a seventh theme was high on his list: credibility.

Stung by widespread criticism of the financing assumptions in its September draft, the White House has gone on the attack. Officials who balked at backing the draft's figures—including Treasury Secretary Lloyd M. Bentsen and Budget Director Leon Panetta—are trotting out to support the new projections. Slapping the lectern for emphasis, Panetta declared at an Oct. 26 briefing: "These numbers are credible, real—and we can defend them." Indeed, the Administration is gushing data, both to drown out doubters and to contrast with the sketchier outlines of competing congressional plans.

FANTASY? Unfortunately for Clinton, making the numbers add up is considerably less than half the battle. The revised plan still depends on heroic political and economic assumptions, including \$124 billion in Medicare cuts and a rapid slowdown in medical inflation. And recent changes have done little to bolster the lukewarm congressional support for the Clinton proposal. So while Senate Finance Chairman Daniel P. Moynihan (D-N.Y.) dons his "Health Care That's Always There" button for Hillary Clinton's appearances, his initial label for the plan—"accurate fantasy"—still lingers.

The Administration has bolstered the credibility of its numbers. Answering critics' claims that the draft understated the cost of the standard benefit package, the Administration used the estimate by up to 7%, to \$4,360 a year for families and \$1,932 for individuals. Projections of health spending use

higher inflation forecasts—3.5% a year rather than 2.7%. Savings from Medicaid, which are strongly opposed by liberals, have shrunk from \$114 billion to \$65 billion over five years.

To underline their caution, numbers-crunchers added a \$45 billion line item for "cushions." That's 15% of the anticipated \$349 billion cost of premium subsidies for small businesses, low-income individuals, and early retirees. That reserve could cover the cost of a two-percentage-point rise in the jobless rate with room to spare, claims a health aide: "You would need unbelievable, extraordinary circumstances to use it up." Should that happen, the President would push Congress for extra funds or to change the subsidy scheme—his answer to charges that health reform creates another open-ended entitlement like Medicare.

Trouble is, a smidgen of fiscal responsibility doesn't buy many votes. Liberals charge that Clinton's cap on spending undercuts his promise to cover all Americans. And while the President has moved a bit to the right—by lessening the regulatory role of new health-purchasing cooperatives, for example—he's still a long way from the centrists led by Senator John H. Chafee (R-R.I.) and Representative Jim Cooper (D-Tenn.). The moderates don't like Clinton's price controls on insurance or his requirement that businesses pay 80% of premiums for all workers.

Clinton hopes that his new, more credible financing projections may eliminate the "numbers issue." But now that his legislation is on the Hill, the emphasis shifts to another numbers game—vote counting. Cooper and Chafee have about 80 co-sponsors, while liberals seeking a government-run system have 90. The fact that, after nine months of work, the President's struggle just to find 40 co-sponsors indicates just how hard he'll have to fight to realize his vision of universal health care.

By Mike McNamee



CAPITAL WRAPUP

REGULATIONS

The Food & Drug Administration is about to make both sides unhappy with its ruling on a long-running dispute over genetically engineered food. The industry has argued that the results of gene-splicing are much the same as conventional cross-breeding, and that the new-style plants usually require no special treatment. Opponents argue that the altered products should be reviewed for safety before reaching market and carry special labels. FDA's split-the-baby solution: It will ask biotech companies to keep the agency abreast of new products, some of which may be subject to review.

But the FDA will reject a call for special labeling. Instead, it will require warnings only where the product poses a special hazard, as with a tomato containing a peanut gene that could cause reactions in people allergic to peanuts.

FLORIDA

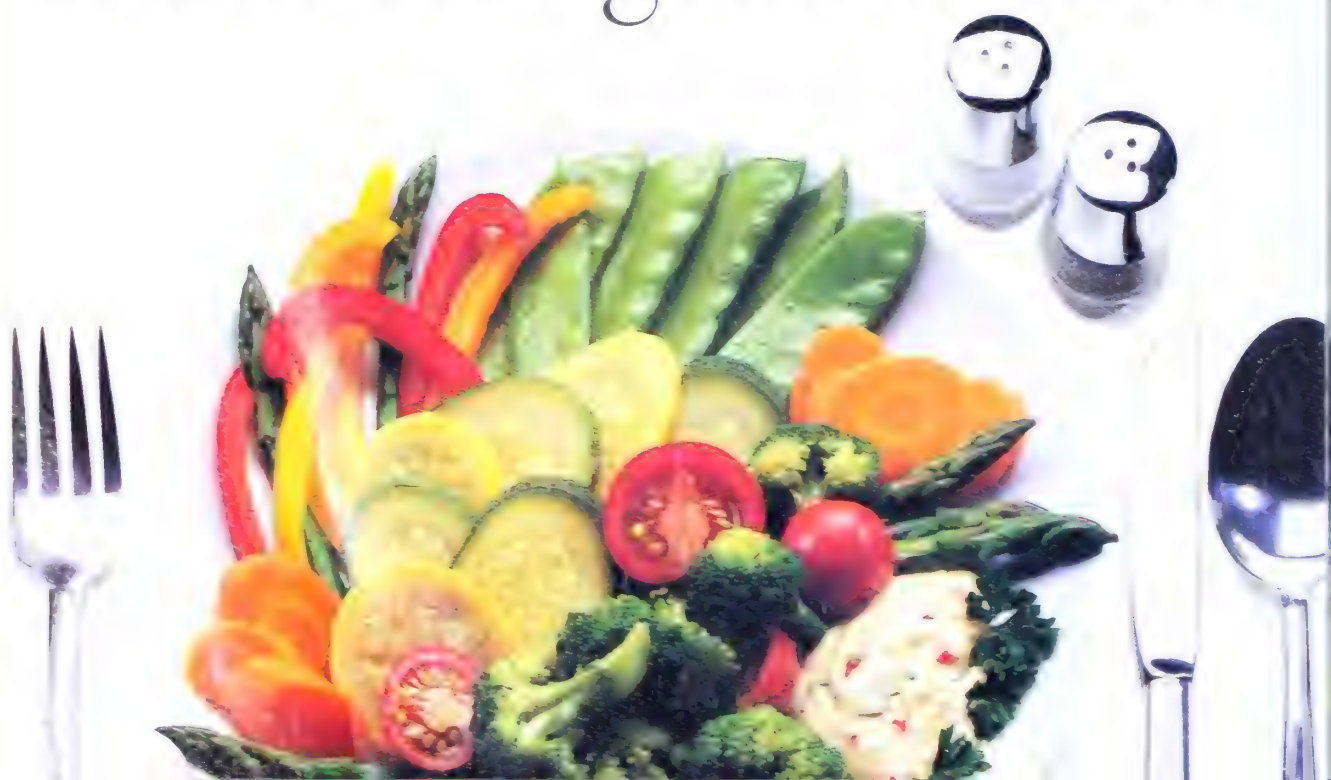
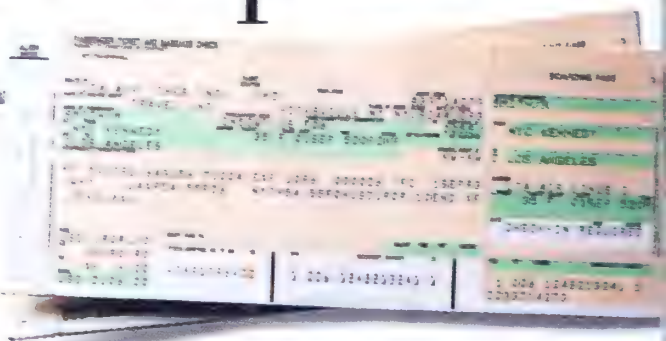
Things are looking up for incumbents of both parties in the Sunshine State. To be sure, Democratic Governor Lawton Chiles, who hasn't said whether he'll seek a second term next year, has some problems: An October Mason-Dixon poll showed that only 26% of voters favored his reelection while 70% would definitely or possibly vote for someone else. But Chiles's re-

election tally is up from just 17% last February. And in trial heats, he still beats all likely Republican challengers by at least 10 points. In a ranking of GOP hopefuls, Insurance Commissioner Tom Gallagher leads with 27%, while former First Son Jeb Bush is second with 19%.

Meanwhile, Republican Senator Connie Mack is sitting pretty. The same poll shows that 65% of Florida voters think he's done an "excellent" or "pretty good" job. And he handily beats all Democratic comers in trial heats. The strongest showing against Mack is from Attorney General Janet Reno. And Reno, who hasn't indicated interest in the race, still trails 47% to 32%.



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EUROPE

STRIKE FEVER HITS EUROPE

Labor may wreck cost-cutting plans



It was a scene France hadn't witnessed for years: thousands of angry workers burning tires, battling police, and shutting down their company for a week. In the end, the bitter walk-out at Air France in late October not only forced the government to shoot down a planned layoff of 4,000 workers at the state-owned carrier but also led to the ouster of the airline's chairman.

The Air France strike may have done even more than that, though. It could mark a troubling and costly turning point for Europe. All over the Continent, workers who have merely grumbled about snowballing layoffs and wage cuts during Europe's worst recession since World War II suddenly are becoming militant (table). Labor's triumph at Air France, along with similar victories in Italy and elsewhere, are causing union leaders to flex new muscles. "You're going to see a lot more action after Air France," promises Gérard Muteau, an official of France's biggest union, the Confédération Générale du Travail. "There's such discontent in Europe, it takes very little to set it off."

Europe's social fabric is starting to fray on several fronts. The European

Community's economic union, already in disarray as EC leaders gather for a special Oct. 29 summit, may come under new pressure. Many workers blame borderless competition for the Continent's soaring unemployment, now 11.5%, and for government efforts to shrink social benefits and bring budgets in line with community dictates. "People can't accept that European union means regression," says Antonio Gutiérrez, head of Spanish

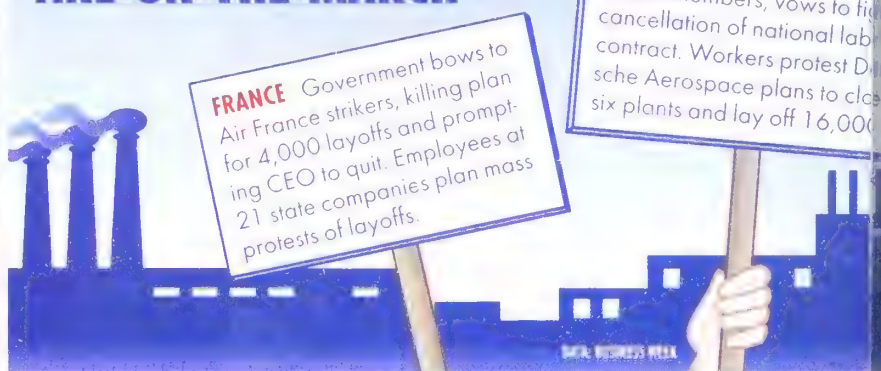
labor group Workers Commission. Labor unhappiness could even threaten governments. Both Spain and Belgium are negotiating social pacts with unions to restrain wages and lessen layoff constraints that executives say discourage hiring. But talks collapsed Oct. 24 in Brussels and are going nowhere in Madrid, and new elections could follow if talks fail altogether.

ON A BINGE. As for industry, labor's new activism threatens the forced march toward global competitiveness. European companies are on a belated restructuring binge, trying to cut costs to Japanese and American levels. State-owned companies, sheltered from competition but now facing privatization, are particularly vulnerable and are trying to shed costs fast. These companies are labor's chief targets so far, partly because vocal politicians often are so touchy.

So French unions are calling for a massive Paris march on Nov. 18 by employees at dozens of French companies. Among them are workers at auto maker Renault, who aim to kill a merger with Sweden's Volvo that would cost jobs. Also joining will be workers from Groupe Bull, SNECMA, Aerospatiale, and other state-owned companies, throwing those enterprises' restructuring plans into doubt as well.

It's the same across Europe. In Italy, strikes are erupting daily and seem bound to worsen. Rome cab drivers stayed home to protest a new tax, while rail workers barricaded Turin's train station, snarling service across northern Italy. But that's nothing compared with the one-day general strike planned for Oct. 28, when some 14 million were due to walk off the job to protest government austerity. Militancy already is paying off. Rome quickly backtracked plans to lay off 500 workers at a profitable chemical plant in Calabria after v

EUROPE'S WORKERS ARE ON THE MARCH



ent strikes erupted there in September. Germany saw wildcat walkouts in mid-October by Ruhr steelworkers, who locked *autobahns* to protest their industry's planned restructuring. Labor leaders are vowing action over recent moves by German business to cancel wage contracts unilaterally. And even in Britain, where strikes have been rare since Thatcher-era laws limited them, unions representing 300,000 civil servants plan a one-day walkout on Nov. 5 to protest privatization.

DAY WEEK? So far, no one expects a return to the chaos of the 1970s, when strikes were as common as coffee breaks in Europe's factories. Since then, most countries have enjoyed unusual labor tranquility. Social pacts in Germany and elsewhere have helped keep peace. In France, 5 million workdays were lost to strikes in 1976, but only 490,500 last year. One reason: Rising living standards and a centrist trend sapped European unions' strength.

Emboldened now, unions may push next to block planned privatizations across Europe, some \$150 billion worth. Meanwhile, governments and companies are struggling to find new ways to keep jobs and ease the pressure. One idea whose time may be coming is a four-day workweek—at lower pay—in lieu of layoffs. Volkswagen plans to introduce this some of its German plants. France's Prime Minister Edouard Balladur also is weighing the idea as national policy. But any French companies oppose it, fearing higher costs.

With the end of Europe's recession nowhere in sight, however, such plans seem unlikely to defuse workers' growing activism. "It's an absolutely explosive situation now," warns Angelo Airaldi, an official of Italy's biggest union confederation, CGIL. For those having to airt this tinderbox, France's Prime Minister hasn't made life any easier.

By Stewart Toy in Paris, with John Lassant in Rome, Patrick B. Oster in Brussels, and bureau reports

GERMANY

GERMANY IS ON A ROLL—DOWNHILL

Spiraling recession has the Bundesbank slashing rates

For months, the German government has been assuring citizens that the recession gripping the nation was ending. But the confident talk has stopped. In late October, Germans were buffeted by a string of frightening reports of mounting job layoffs, falling output, and declining consumer spending. That forced a chastened Chancellor Helmut Kohl to admit the obvious: The bottom is still not in sight.

The darkening economy finally seems to be prompting the normally cautious Bundesbank to shift gears. On Oct. 21, in a surprise move, the central bank cut its key discount rate a half-point, to 5.75%. And some economists say the rate could fall to 4% by late 1994, a drop that could weaken the German mark and thus boost exports. "There's a break in the Bundesbank's monetary policy," says Thomas Mayer, Goldman, Sachs & Co.'s economist in Frankfurt. "Inflation dangers are deemphasized, and worries about the economy are emphasized."

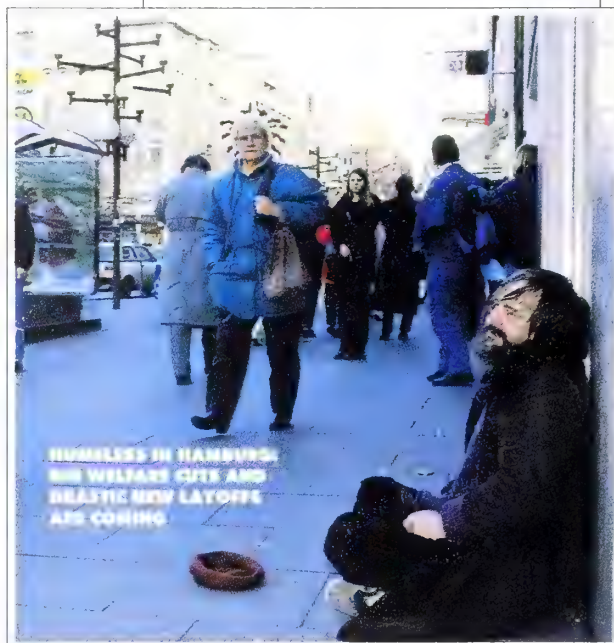
For its economy to turn around, Germany needs to be a more competitive exporter. But the strong mark has priced German goods out of markets. New Bundesbank President Hans Tietmeyer now admits he's worried about the effects of the strong mark, an indication the bank will be less eager to keep the mark high to combat inflation.

BLEAK OUTLOOK. A weaker mark no doubt will help industry. But it won't be enough to avert more corporate downsizing and sharp cuts in the nation's extravagant social welfare system, which Kohl slams as a "leisure park."

For Kohl and his ruling Christian Democrats, the bleak outlook spells political trouble ahead. The Chancellor concedes that the economy in western Germany will be moribund at least until mid-1994, just months before the November Bundestag elections. Kohl already is out of favor with nearly two-thirds of voters in one recent survey, and his disapproval rating is bound to rise as the jobless rate—now 8.6%—keeps going up.

The most dramatic job losses are occurring at Volkswagen, Europe's biggest carmaker. It announced on Oct. 25 that it will go to a four-day workweek next year to cut costs—a move that signifies another crack in Germany's social pact, as unions are forced to make unprecedented concessions. VW's new cut-back follows an agreement with its unions to eliminate 15,000 jobs.

As an aggressive cost-cutter, VW is be-



coming something of a trendsetter: It has been demanding lower prices from suppliers, and other auto makers are following its example. So are other industries, from textiles to aerospace.

Of course, Germany's neighbors also are eyeing export growth to boost their economies, and many of them have an edge in the form of depreciated currencies. That's why a weaker mark may be inevitable if Germany is to get back on its feet.

When Germany's veteran leader sounds worried, when its top auto maker slashes jobs, and when its rigid central bank even hints that the vaunted German mark might have to come down a peg, you know the economy's in bad shape. But if Germany doesn't swallow its pride and make some drastic changes, better times will be a long time in coming.

By John Templeman in Bonn, with Bill Javetski in Paris

SPAIN Unions plan nationwide protests in November to thwart government plan to moderate wages and ease layoff rules. Workers vow to fight VW's closure of its Barcelona plant.

Some 14 million Italianers schedule general strike in October to protest the austerity program.

CHINA

WHO'LL RAKE IN CHINA'S TELECOM BONANZA?

Ideological rhetoric masks a struggle for control of huge profits



A BAN ON SATELLITE DISHES IS INTENDING TO SQUEEZE CASH FROM WESTERN COMPANIES

China's latest attempt to control information technology seemed like an ordinary hard-liner crackdown. In mid-October, Beijing banned the use of satellite dishes and followed that up with new regulations on vendors of cordless telephones and pagers. "If China's information system is spread about and not grasped firmly in hand, how can people feel safe?" asked the official *Economics Daily*.

Don't be fooled by the rhetoric. The Chinese are fighting for much more than ideological purity. Behind the scenes in Beijing, a high-stakes battle is taking place for control of the telecommunication business.

The phone regulations are part of a struggle involving groups battling to grab a piece of the telecom action from Beijing's Ministry of Posts & Telecommunications (MPT), which wants to keep its industry monopoly. Small wonder. The MPT's revenues for the first six months of this year hit \$3.6 billion, nearly a 60% jump over the same period last year. And the government wants to increase the number of phone lines from the current 17 million to 100 million by the end of the de-

cade. "The potential profits are huge—and everyone wants a slice of it," says Paul Deayton, a Cr dit Lyonnais analyst based in Hong Kong.

To consolidate its grip, the MPT is trying to regulate the industry by forcing other ministries involved in the business to get MPT licenses. But the People's Liberation Army (PLA), the Electronics Industry Ministry, the Railways Ministry, and the People's Bank of China, which have telecommunication systems with excess capacity, want to challenge the MPT by jointly creating a rival network.

Already, the challengers are starting to make inroads. The State Council has

given approval for Ji Tong Corp., a company established earlier this year by the Electronics Industry Ministry, to start pager and data communications service that links up with the public phone system. Ji Tong is now awaiting a license from the MPT.

BET ON THE ARMY. Perhaps the most formidable opposition comes from the PLA, which is very much involved in the paging, cellular phone, and satellite industries. Throughout southern Guangdong province, the military hooks up satellite dishes for all users, private or public. It also controls the various frequencies and has friends in high places.

Eventually, the PLA is bound to have its way. According to Allan Ng, a telecom analyst for S.G. Warburg Securities (Far East) Ltd., the MPT over the next few years will split in two: One part will regulate the industry, the other will provide services. The regulators will also be able to set prices for all telecom companies. "So even if all the other ministries are allowed to take on subscribers, they are not going to be full-fledged competitors," says Ng.

The battle does take on an ideological dimension when it comes to satellite dishes. The latest restrictions on the dishes were announced shortly after Rupert Murdoch, whom Beijing mistrusts, bought the satellite network Star-TV from Li Ka-shing, the Hong Kong tycoon who is a close friend of many top Chinese leaders. Star-TV, which carries MTV-Asia, BBC news, and Mandarin-language entertainment programs, is seen as an ideological threat to the party. "Star wants to get into the Chinese market, Murdoch will have to pay," says one Hong Kong analyst. "One way is to force him to go through cable."

Many foreign suppliers of telecom gear think it's time the MPT got its house in order. Some of China's many wireless networks are terribly inefficient. If the MPT can limit the available networks to approved users and suppliers, Western makers will come out ahead. "If they enforce the rules, they should help official suppliers like us and Motorola," points out Michael Rieks, Ericsson vice-president for business development.

China eventually will need foreign capital to modernize its phone system. Before that happens, the ministries will slug it out. Luckily for them, the needs of China are great that there are plenty of profits to go around.

By Joyce Barnathan, with Dave Lindorff, in Hong Kong and Lynne Curry in Beijing

CONTENDERS FOR CHINA'S INFO HIGHWAY

MINISTRY OF POSTS & TELECOMMUNICATIONS: Beijing's version of Ma Bell is determined to maintain its monopoly

Ji TONG CORP.: Company set up by the Electronics Industry Ministry to operate wireless systems needs Posts & Telecommunications approval

PEOPLE'S LIBERATION ARMY: Military runs booming paging, cellular, and satellite businesses

PEOPLE'S BANK OF CHINA AND RAILWAYS MINISTRY: Along with the PLA, group wants to help set up rival phone network

NEWS CORP.: Chinese ban on satellite dish use is aimed at Rupert Murdoch's recently acquired Star-TV

MOTOROLA AND ERICSSON: Major suppliers of wireless technology should benefit if government succeeds in crackdown on illegal Taiwanese and South Korean equipment

DATA: BUSINESS WEEK



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CAN CHRETIEN KEEP CANADA FROM COMING APART?

At first glance, Jean Chrétien's Liberal Party seems to have scored an astounding victory in Canada's national elections. The ruling Progressive Conservatives won just two seats in the new Parliament. So sweeping was the Tories' defeat that even outgoing Prime Minister Kim Campbell was dumped by her Vancouver riding.

But the voters' brutal rejection of the Conservatives was more an angry protest against the status quo than an endorsement of Chrétien's Liberals. When closely examined, Chrétien's majority—177 of 295 seats—looks less impressive. It comes almost entirely from recession-battered central Canada and the depressed Atlantic provinces, which favor government programs to ease unemployment. In the West, voters sided overwhelmingly with the new Reform Party, a populist, budget-cutting group, well to the right of the Tories. And in Quebec, the Bloc Québécois, a French secessionist party, took 54 of the 65 seats. So the two main leading opposition groups in Parliament will be radical, regional parties.

When Chrétien takes over as Prime Minister next month, he will be presiding over what respected pollster Angus Reid calls "the beginning of a whole new era in Canadian politics." It will likely be a period of surging regional strength and brazen challenges to federal authority. The question on everyone's minds is whether Chrétien, a 26-year veteran of Parliament from Quebec, has what it takes to hold an increasingly polarized country together. While analysts note that the 59-year-old is blessed with down-to-earth political skills, that may not be enough to head off the surging tide of separatist sentiment in Quebec.

FISCAL WOES. They also say that economic restraints will severely limit Chrétien's freedom of action. His supporters are likely to quickly discover that he cannot deliver on his campaign's winning themes of a return to "the good old days" of ample job opportunities and generous benefits. His stated first priority is to tackle Canada's 11.2% unemployment rate. But with the deficit running at near-record levels, he simply lacks the money to create many jobs. He may not even be able to fully fund the \$4.5 billion job-creating infrastructure program that he promised.

Meanwhile, he will face pressure from the financial markets and the Reform Party to cut spending to tame the deficit. As a former Finance Minister who helped create many of Canada's social programs, Chrétien has little stomach for this task. But with net government

debt now approaching 90% of gross domestic product, second only to Italy among the G-7 powers, "Chrétien won't have any choice but to cut spending," warns Thomas d'Aquino, president of the Business Council on National Issues. If he hesitates, d'Aquino says, "the markets will force his hand."

Chrétien will also have a tough time keeping his pledge to renegotiate the 1989 Free Trade Agreement with the U.S., which many Canadians blame for their economic woes. Chrétien wants new provisions to protect Canadian exporters of products such as softwood lumber and steel against persistent

U.S. subsidy and dumping charges. But with Congress in the midst of a bitter debate over the North American Free Trade Agreement, the Clinton Administration has no appetite for renegotiation now. Even if Chrétien eventually brings President Clinton to the table, the U.S. is certain to press its own demands, such as easing the protections now given to Canada's cultural industries.

Still, these problems pale beside the resurgence of Quebec separatism. Foreigners cannot be blamed for thinking Canadians have been fighting about Quebec's status forever. But the battle is entering a new and far more dangerous phase. The separatists have always stayed out of national elections. But now, for the first time, they are sending a massive contingent of MPs to Ottawa expressly committed to independence for Quebec. Incredibly, as the second-largest delegation, they may become the official opposition, even though they hope to destroy the Canadian Confederation.

The Bloc is certain to clash with the Reform Party, which won 52 seats and is vigorously opposed to any special concessions to Quebec. Inevitably, this clash will polarize opinion in Quebec and English-speaking Canada. Meanwhile, the Bloc

will be working closely with the provincial Parti Québécois to help them win next year's provincial elections in Quebec.

Although a Québécois, Chrétien is ill-equipped to keep Quebec within the fold. As a staunch federalist and onetime disciple of former Prime Minister Pierre Trudeau, who blunted a strong separatist drive in the 1970s, Chrétien has alienated many in his home province.

Of course it's by no means certain that Quebec will ultimately vote for separation. When the crunch comes, the Québécois may sober up and decide such a move would be too costly. But by that time, they may have ruined Chrétien's term in office.

By William C. Symonds in Toronto



JEAN AND ALINE CHRETIEN

CHALLENGES FOR CHRETIEN

FREE TRADE Chrétien wants to renegotiate the U.S.-Canada free-trade pact and NAFTA, but faces resistance in the U.S.

QUEBEC The strong showing by separatists may mean a divisive showdown on Quebec independence



UNEMPLOYMENT A huge deficit will make it hard to keep promises to cut Canada's nagging 11.2% jobless rate

DEFICIT Soaring debt may force a reluctant Prime Minister to cut back Canada's generous social programs



DATA: BUSINESS WEEK

FOR JAPAN INC., A KENTUCKY WHIPPING

Is Gene Freeman's experience a lesson for U.S. suppliers?

Kentucky executive Eugene E. Freeman Jr. likes a lot of things about the Japanese. He enjoys driving his Acura. And he likes what Toyota Motor Corp. has done for his region's economy, building a giant auto-assembly plant in nearby Georgetown and bringing in a lot of Japanese investment. So when Tomen America Inc., the subsidiary of Japan's \$50 billion Tomen Corp., asked to be his company's exclusive sales agent in the Far East, he had no qualms. The Japanese trader seemed "the ideal company to be our representative in this new market," Freeman says.

That was in 1989. Now, instead of winning new customers in the Far East, the 64-year-old Freeman has just concluded a bitter breach-of-contract suit against Tomen—one that convinced a jury of the Japanese giant's disregard for its tiny partner.

Tomen denies any misconduct. Yet for many American trade negotiators and critics of Japan, Freeman's travails seem to confirm a long-harbored suspicion: That many Japanese companies use such dodges as claims of poor quality to end overseas deals they no longer like and protect Japanese partners over foreign ones. "This is a classic, a typical case with the veil pulled away," says Leon Hollerman, a U.S.-Japan expert at Claremont McKenna College.

Here's how this cautionary tale unfolded. In 1989, Freeman Corp., a privately held maker of hardwood products, teamed up with Tomen's U.S. subsidiary. Although it had not yet cracked the Far East, the Winchester (Ky.)-based company was no export neophyte: In its 40 years in business, it had already tapped Middle Eastern and European markets. By 1992, they accounted for 30% of its \$10 million in sales.

IN THE LURCH. In its role as Freeman's agent, Tomen America asked the company to develop a special, extra-thick sheet of hardwood floor veneer, the material contractors glue onto inexpensive composite-wood floors to give them a classy look and feel. Such a veneer had big potential in the Far East. Tomen

agreed to buy all the new wood veneer Freeman could produce for six months and use its "best efforts" to sell additional amounts for five years.

But according to Freeman's lawsuit, Tomen America never told Freeman that instead of selling the veneer to various Asian wholesalers, the trader had formed an exclusive alliance with just one customer—Kyodo Veneer Corp., a Japanese wood-products and flooring company. Kyodo wanted Freeman's extra-thick veneer because it was developing a new technology capable of splicing

the veneer into finished floor paneling. Tomen had another reason for giving Kyodo exclusivity: It had a 30-year trading relationship with Kyodo.

Gene Freeman, meanwhile, thought Kyodo was just the first of several customers Tomen planned to line up. To pay for new equipment, he borrowed \$2 million, while Tomen America chipped in an additional \$1.1 million. Then, in October 1990, a month before Freeman's upgrading was completed, Kyodo ran into snags perfecting its new technique. The Japanese company decreased by more than 60% its orders of Freeman veneer. It changed its senior management and delayed the project. That left Tomen America with virtually no outlet for the veneer, according to internal Tomen America memos obtained by Duane Cook, Freeman's lawyer, who has filed them in the local court.

Gene Freeman says he was kept in the dark about these critical developments, a point supported by internal Tomen memos written in Japanese and submitted in English translations as plaintiff evidence. "We won't tell Gene Freeman



FREEMAN: SALES AGENT TOMEN LINED UP JUST ONE JAPANESE CUSTOMER FOR HIS WOOD VENEER

is when we visit," says an Oct. 15, 1990 memo about Kyodo's technical difficulties. Tomen America sent its memo to the parent company's headquarters in Osaka. And instead of exerting its "best efforts" to find more customers, Tomen stuck with Kyodo. On Oct. 22, 1990, Yutaro "Lucky" Morita, Tomen's general merchandising manager, explained why Tomen America representatives. "We want Kyodo to develop this machine and be able to splice automatically," he wrote. "They need more time to develop this machine."

HARD WORK. Then Freeman ran into the complaints of poor quality. While Tomen and Kyodo representatives O.K.'d seven shipments of veneer to Japan, each individual sheet was inspected on arrival. Every one was rejected by company inspectors for quality reasons. Tomen executives, and Tomen's U.S. lawyer, insist the quality was poor and justified refusing to pay for the goods. At trial, Danny C. Reeves, Tomen America's counsel, charged that initial problems with Freeman's new equipment produced a "bunch of garbage."

Freeman concedes there were startup problems. But even Tomen America representatives questioned the purpose and

results of the quality inspections. At one point, Kyodo requested that the veneer be dried to a moisture content guaranteed to crack the wood—which would make rejection a certainty, according to internal Tomen memos. Mitsushige "Mick" Morita, Tomen America's representative to Freeman and no relation to Lucky Morita, wrote headquarters on Jan. 24, 1991: "I cannot do that to them now after all their hard work."

No matter. On Jan. 28, 1991, Tomen told Tomen America: Don't buy any more veneer. On Jan. 29, Mick Morita fired back a memo saying Tomen was "not doing business with Freeman in good faith." It was threatening Freeman, he said, like "the Yakuza," the Japanese mafia.

When Tomen canceled the orders, Freeman had to act fast. To stabilize his increasingly fragile finances, he sold his company's lumber business and laid off half of its workers. Then, he sued Tomen America for \$10.9 million in damages, charging breach of contract.

At the trial last July and in depositions, Mick Morita acknowledged writing

the anguished memos but testified that he was "upset and confused." He added that he later found he had "totally misunderstood the problem."

Despite Morita's testimony, it took the jury only four hours to return a verdict finding that Tomen had committed breach of contract. In July, the jury imposed on Tomen America a \$6.5 million damage award—about what Freeman claimed was his operating loss as a result of Tomen's actions. That amount was reduced to \$4.8 million in September, when Tomen America agreed not to appeal in return for a lower damage award, although it did not admit any wrongdoing.

But what about those revealing memos? Tomen America's general counsel, Robert B. Cohen, calls them part of the frank discussions that take place inside any company—not evidence of a deliberate attempt to chisel Freeman.

REBUILDING. As for Kyodo Veneer, it changed its name to Tostem Woodwork Co. in April, 1992. Reached in Japan, Managing Director Shigehiro Shii rebuts a number of Freeman's claims. He says the company doesn't care about the thickness of the wood, for example, and says Tostem Woodwork is now purchasing better-quality wood from Japanese-owned companies in the U.S. He denies that the company had problems perfecting its technique. Moreover, in making its product, "it's perfectly normal to evaporate moisture from the wood," Shii says. "The fact is, other wood that we import from the U.S. has passed the same tests."

Today, Gene Freeman plans to use proceeds from the settlement to rebuild the company his grandfather founded. He still hopes to break into the Far East market. The Tomen America episode, he says, "was a nasty mess we'd all like to forget about."

Freeman may manage to forget this episode. But companies that want to follow President Clinton's exhortations to crack the Japanese market may want to remember Freeman's case. It shows the pitfalls can be greater than they ever imagined.

By Douglas Harbrecht in Winchester, Ky., with Hiromi Uchida in Tokyo

It took a jury
only four
hours to find
against
Tomen

WHY FREEMAN WENT TO COURT

Kentucky's Freeman Corp. sued Japanese giant Tomen Corp. for breach of contract—and won. At issue: whether Tomen used arbitrary quality inspections to sidestep a contract to sell Freeman's wood veneer products. A key piece of evidence was a memo, excerpted below, by Tomen America employee Mitsushige Morita questioning his company's practices and those of Tomen customer Kyodo Veneer Corp.

DATE: Jan. 29, 1991 **MEMO**

...it is also important to support Freeman who is our project partner and is now in financial trouble because of the unexpectedly stringent quality requests. ...I cannot wring the neck of a dead person. I don't want to be a part of Yakuza business. I will not regret it if my attitude causes me to lose my job. ...I do not want to do business [with] such an unreasonable and unfair partner as Kyodo. ...Since Kyodo's engineer has inspected the first seven containers, Kyodo must pay for the goods.

DATA: INTERNAL TOMEN MEMO, TRANSLATED FROM JAPANESE, SUBMITTED AS EVIDENCE



ABSOLUT PANDEMONIUM

As liquor sales fall, companies are battling for premium brands

If you think brands are dead, consider the events of Oct. 12 in the liquor business. First, Seagram Co. announced that it had acquired the right to distribute Absolut, the ultrahip Swedish vodka, in the U.S. and overseas. Estimated price to Seagram: \$1.25 billion. Over at Grand Metropolitan PLC, whose International Distillers & Vintners Ltd. division has been distributing Absolut for the past 13 years, the response was swift and furious. A spokeswoman for IDV says it is contemplating suing Vin & Sprit, Sweden's state liquor company, which exports Absolut.

Meanwhile, at Guinness PLC's United Distillers unit, managing director Crispin Davis abruptly resigned. The industry buzz: Davis, a former Procter & Gamble marketer, had been slashing prices in tough markets to meet profit targets, clashing with Guinness Chairman Anthony Greener's determination to protect the company's exclusive brands and the premium prices they command.

CASE LAW. The industry's Big Three don't agree on much, but as the fierce battle for Absolut and the repudiation of discounting show, they share an unshakable faith in the big, pricey brand. Sure, value-conscious consumers are abandoning premium-priced lines of tobacco, food, and household products. But the spirits companies continue to get a disproportionate chunk of profits from a handful of high-end labels (chart). United Distillers, for example, makes \$63 a case on deluxe brands such as Johnnie Walker Black Label scotch, seven times its profit on a standard scotch such as VAT 69, says John Spicer, an analyst at S. G. Warburg in London. And no wonder IDV will be sorry to see Absolut go next year: It will make \$60 million in pretax profits on the brand in 1993.

But wait a minute. Doesn't the liquor business bear some uncomfortable similarities to the tobacco industry, where

the brand meltdown began? Like tobacco, liquor faces mounting health concerns, regulation, legislation, and taxation. Like tobacco, distillers made up for declining consumption by raising prices on top brands in the 1980s—in liquor's case, by as much as 19% a year. And, like tobacco, the soaring premium prices created an opening for cheap brands



and private labels, which have lately been picking up market share. What happened in cigarettes, Philip Morris Cos. ultimately decided to slash the price of its flagship brand, wiping out billions in industry profits and market value. Can Marlboro Friday be far behind in the booze business?

Point out those parallels to liquor industry chieftains, and they won't exact raise a glass in your honor. "Comparison of our industry with tobacco is erroneous, misleading, and wrong," says Edgar Bronfman Jr., president of Seagram. "It's a completely different situation," insists Guinness' Greener.

Far from bracing for a pricing Armageddon, the big distillers plan to continue to raise prices, though at a much slower pace than in the 1980s. With

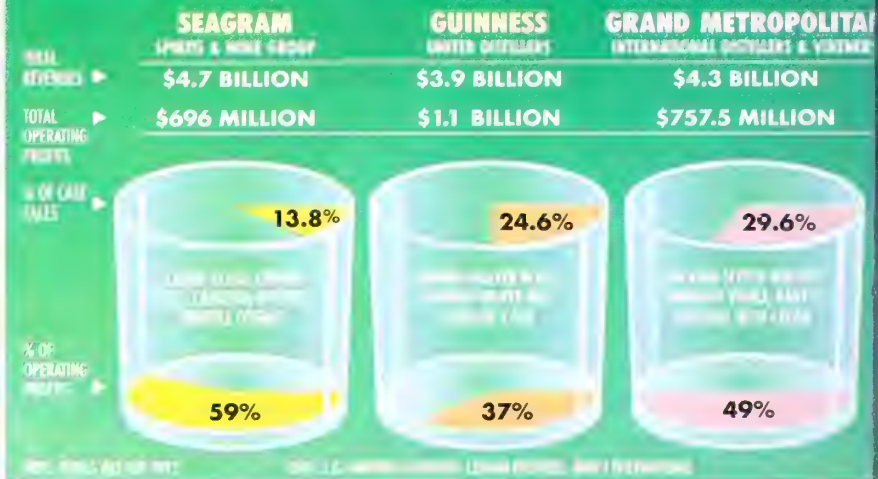
LIQUOR COMPANIES ARE IMMUNE TO THE BRAND-BUSTING THAT SLAMMED TOBACCO—OR AT LEAST, THEY HOPE SO

drinking declining in the U.S. and other big markets, sales growth will come only through price increases. That's why the industry marketing strategy has been to persuade consumers to trade up to higher-priced brands. In campaigns such as "Live a Cutty Above," the implicit message has been "Drink less, but drink better."

Until now, the strategy seemed to be working. Profits of the big liquor companies have grown by an average of 15% each year since 1980, even though worldwide case sales dropped 5%. "Premium brands captured a larger share of a shrinking market," says Stephan Tywnia at KPMG Management Consulting in London. In Great Britain, premium brands controlled 48% of the market.

A TOAST TO THE TOP THREE BRANDS

For major distillers, premium brands contribute hefty chunks of sales and profits



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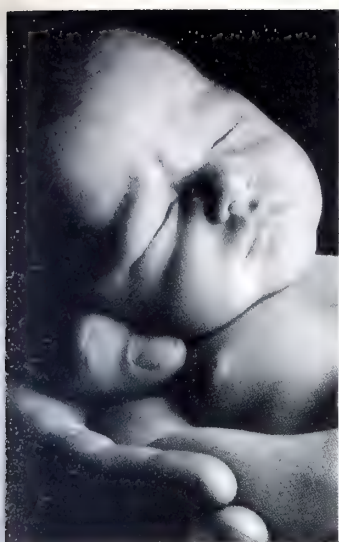
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Marketing

ket in 1991, up from 36% in 1985. In the U.S., premium brands rose 1%-2% in 1992, while overall liquor sales were essentially flat, says Frank Walters, director of research at M. Shanken Communications, an alcoholic beverage trade publisher. But there are ominous signs, too. In Britain, for example, private label spirits accounted for 27% of the retail market in 1992, up from 23% a year earlier. In the U.S., "premium brands are going to have a tough time in the 1990s," says Walters. "There's a lot of private-label brands out there, especially in vodka." Meanwhile, Martin Romm, an analyst at First Boston, recently revised his earnings estimate for Seagram's Spirits & Wine Group from a 4%-5% gain to flat this year. Profits at United Distillers will drop 3.7%, says Warburg's Spicer. And though he predicts that earnings at IDV will jump 11%, that's mostly because of exchange rates.

HIGHER SPIRITS. So far, most of the squeeze has been on middle- and lower-tier brands. That's why Seagram and Grand Met have been bailing out of the low end and Guinness has poured money into premium brands. Seagram, for example, sold off seven lower-end labels, including Lord Calvert Canadian Whiskey and Wolfeschmidt Vodka, to Jim Beam Brands, a division of American Brands, for \$373 million two years ago. That has allowed it to concentrate on Chivas Regal and its other top brands. Guinness, in turn, poured much of its ad budget during the late 1980s into reversing the volume slide of its three big brands—Johnnie Walker Red, Johnnie Walker Black, and Dewar's. And Grand Met paid \$1.2 billion in late 1987 to acquire Heublein Inc., which gave it Smirnoff, now the world's No. 2 spirits brand, after Bacardi rum.

But discounting at the lower end now prevents these owners of premium brands from hiking prices much faster than inflation. To shore up their pricing power, distillers say they will keep investing in brand-building. They remain convinced that they can persuade drinkers that what's in the bottle is worth the price. Guinness' Greener believes that premium brands will stay strong because consumers attach personal values to their choice of drink. However, that argument was once made in tobacco, too: Cigarette companies figured—wrongly—that smokers wouldn't abandon Marlboro and Winston for generics and discounted cigarettes because they iden-

tified so strongly with their brand. And in yet another parallel to tobacco, the big spirits companies increasingly are hunting for growth in emerging markets in Eastern Europe and the Far East. With the top 100 brands accounting for less than 7% of the spirits consumed worldwide, the industry figures there's plenty of room for expansion. Demand is rising for prestigious Western brands in China and the former Soviet bloc, where health concerns are stymied and advertising restrictions feared. On Oct. 21, United Distillers announced

**SOME 64
MILLION CASES
OF VODKA WERE
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BUT RUSSIAN
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THAT'S WHY
DISTILLERS ARE
EAGER TO
CRACK EASTERN
MARKETS**

a joint venture in China with the French liquor and luxury-goods group LVMH. It has already recruited a sales staff of 50 and plans to triple its work force by 1994.

The cachet of foreign brands overseas may also be the real reason for the 12-month scramble for Absolut True, Seagram needs a premium vodka to fill a gap in its portfolio—though it won't comment on how the deal is being financed and calls the \$1.25 billion estimate "crazy." More important, Seagram saw an opportunity to expand Absolut

worldwide, since more than 75% of the brand's sales are now in the U.S. Bronfman predicts that the proportion of sales from outside the U.S. will double within five years.

And consider Grand Met's designs on the Russian market. Roughly 64 million cases of vodka were sold in the West last year. Include Russia, and the market almost quadruples, to 224 million cases. "All of a sudden, the world market is much larger than it has been traditionally defined," says Paul Curtis, IDV's president of international marketing. With an eye on such staggering prospects, Grand Met's IDV set up an office in Moscow earlier this year. It is now selling 650,000 cases of American-made Smirnoff to Russians—at about \$1 a half-liter bottle, 25% more than in New York.

Talk about carrying coals to Newcastle. But maybe that's a sign that this one industry that has a shot at keeping its brands alive. After all, the folks who can sell premium-priced American vodka to Russians must know something about marketing.

By Julia Flynn in London and Laura Zinn in New York

capability: executive programs

SURVIVING THE PEACE

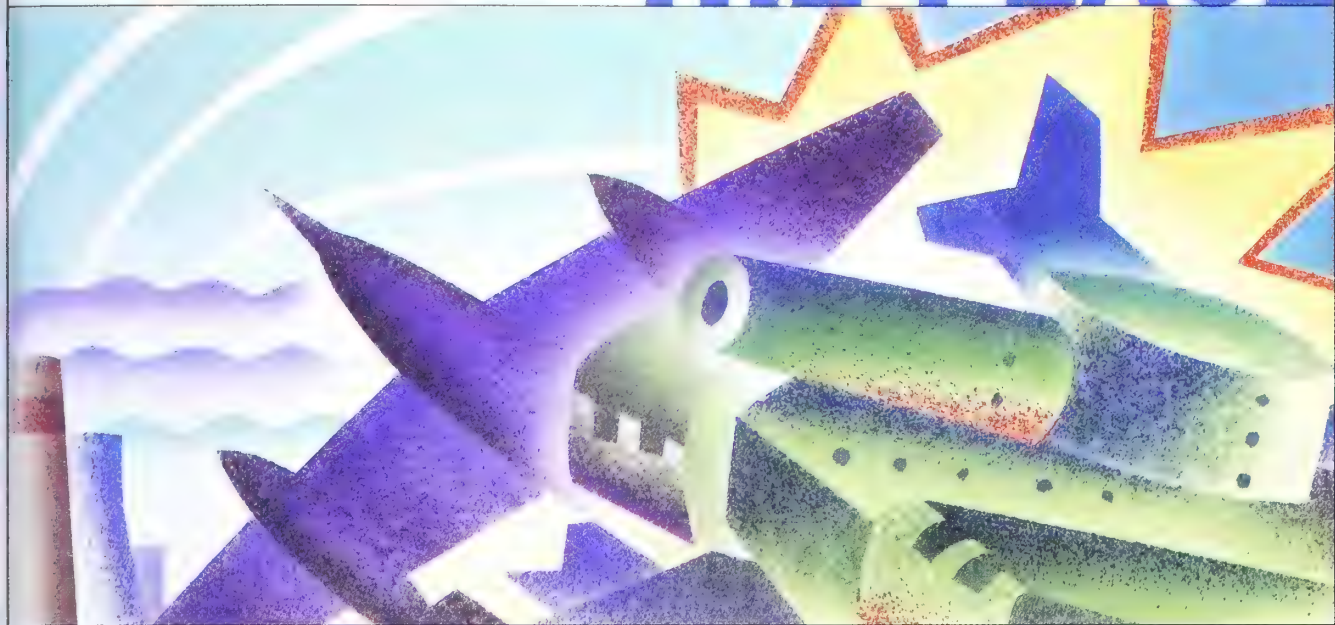


Illustration by Nickolai Punin. As seen in BusinessWeek, January 13, 1992 Issue

The 1993 Business Week Defense Conversion Roundtable

Surviving the Peace: The Conversion and Realignment of the Defense Industry

Date: Tuesday, November 30 and Wednesday, December 1, 1993

Place: The Regent Beverly Wilshire Hotel, Los Angeles, California

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BusinessWeek

Beyond news. Intelligence.

GE'S BRAVE NEW WORLD

WELCH SEES THE FUTURE. IT'S CHINA, INDIA, MEXICO

More than 500 million of India's people live in poverty. The government of Prime Minister P.V. Narasimha Rao is teetering as Hindu militants gain ground. Xenophobic politicians have forced U.S. agricultural giant Cargill to abandon a salt-mining venture, and they promise similar action against Coca-Cola, PepsiCo, and McDonald's. Thousands gather at an antiforeigner rally in the southern city of Bangalore.

On the surface, it doesn't seem like the most promising investment opportunity. But it is in such developing giants as India that GE Chief Executive John F. Welch Jr. sees the future. For the past few years, teams of General Electric Co. executives have crisscrossed India methodically with the tenacity often associated with a Japanese *keiretsu*. Today,

GE is far and away the biggest U.S. investor in India, with \$100 million sunk into factories making medical-imaging equipment, plastics, kitchen appliances, and lamps. Sales in India have gone from almost nothing to \$400 million. The goal: \$1 billion before the decade's end.

The way Welch sees it, GE's aggressive pushes into India, China, and Mexico are no longer a matter of choice: They could well determine the future of the \$57 billion titan, America's third-most-profitable company. Total revenues have climbed a bare 3% in each of the past two years, and the prospects for strong U.S. growth are marginal. Last fall, after looking down from his Guangdong hotel window at a vast sea of construction cranes, Welch set out once and for all a strategy that would shift the company's "center of gravity" from the industrialized world to Asia and Latin



NORTHERN CHINA A STATE NURSERY USES BOTTLES MADE OF RECYCLED GE PLASTIC

THE BIG GE PUSH

A selection of key GE moves in Asia and Mexico

APPLIANCES

Making low-cost ovens in **India** through joint venture with Godrej. Builds gas ranges in **Mexico** with partner Mabe for export to the U.S. Recently opened research center in **Mexico**

GE CAPITAL

Setting up a million fund equity position in Asian power. Has a stake in billion dollar plant. Seeking open **China** commercial operation



INDONESIA A GE ENGINE IS SERVICED IN JAKARTA. SOUTH-EAST ASIA IS ALSO A GROWTH TARGET

ENGINES

om in **Chi-**
500 million
is opening
enters in 17
ities by
24. Shifted
g office.
incinnati to
has engine-
ility in
sia

PLASTICS

Recently bought a commercial resin business in **Mexico** and has a joint venture. Is completing a compounding facility in **India** and agreed to one in **Singapore**

MEDICAL SYSTEMS

Has a joint venture, GE Hongwei Medical Systems, to develop low-cost imaging equipment in **China** for local market and export. Has a similar deal in **India** and a joint venture with Thai Hospitech

POWER SYSTEMS

Expects to get 50% of new orders from Asia for rest of the century, or half of annual \$6 billion-\$8 billion in sales. Leader of consortium building a \$600 million thermoelectric power plant in **Mexico**

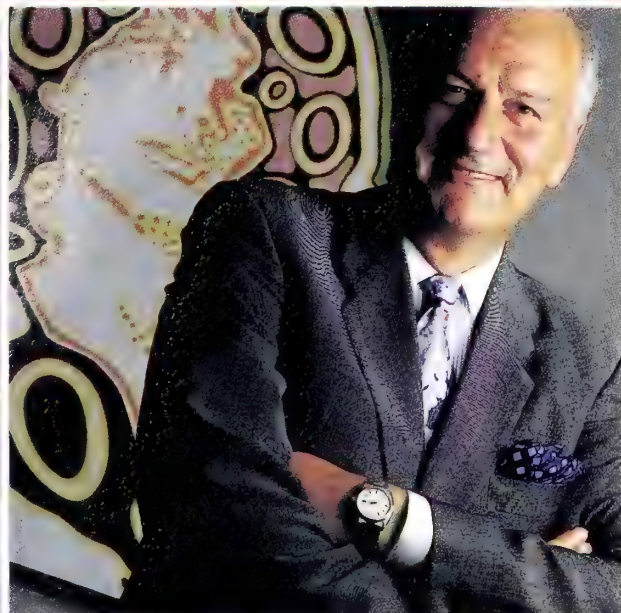
DATA BY COMPANY REPORTS



MEXICO GE CAPITAL FUNDS A POLYESTER THREAD PLANT

(TOP TO BOTTOM) PHOTOGRAPHS BY PATE/CALUM; BACQ; STAR; KEITH DANKENMILLER; SABA

**VICE-CHAIRMAN
FRESCO:**
"THE MODERN
COMPANY HAS
SPREAD ITS
BRAINS—ITS
CENTERS OF
EXCELLENCE.
IT REALLY IS A
CITIZEN OF MANY
COUNTRIES
RATHER THAN A
CITIZEN OF ONE"



CHAIRMAN AND CEO WELCH:
"IF THE STRATEGY 'IS WRONG,
IT'S A BILLION DOLLARS—A
COUPLE OF BILLION DOLLARS.
IF IT'S RIGHT, IT'S THE FUTURE
OF THE NEXT CENTURY FOR
THIS COMPANY'"

America. By 2000, those markets could provide more than \$20 billion in revenues, double the current level—and more than 25% of GE's total sales.

Certainly, GE is no stranger to international business. From jet engines to credit cards, its products and services are sold throughout the industrial world. It competes against the likes of Hitachi, Siemens, and ABB Asea Brown Boveri. But GE has never really been a global company, just a U.S. company operating internationally, and most of its activity has been in Europe and Japan.

Now, at the behest of the hard-charg-

ing Welch and Vice-Chairman Paolo Fresco, an urbane Italian who lives in London, GE is betting on the three developing giants—China, India, and Mexico—with Southeast Asia close behind. Total population: roughly 2.5 billion, some 10 times the U.S. In all four markets, political and economic risks loom, but GE reckons that placing many small stakes of a few tens of millions of dollars each will cushion it. If the strategy "is wrong, it's a billion dollars, a couple of billion dollars," says Welch, who spends weeks in far-flung capitals pushing the plan. "If it's right, it's the future of

the next century for this company.

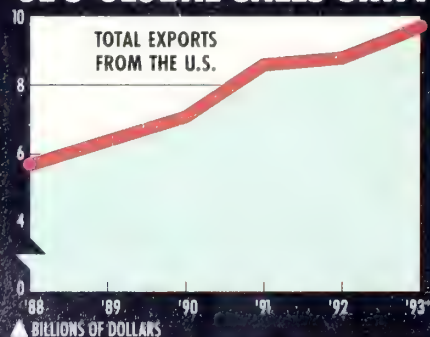
GE brings a powerful arsenal to the battle, including a team of globe-trotting managers and the technologies in demand in countries with primitive infrastructures. In some cases, GE relies on exports from the U.S. of high-value goods such as jet engines and turbines. In others, it is becoming a local assembler of low-technology goods or even a full-scale maker of appliances and other products for export. And GE has signed a deal with Rupert Murdoch's Star TV to launch an Asian version of its business and news CNBC channel. General Electric Capital Services helps bind it all together. "They can combine great equipment with the ability to structure deals, and a financing arm that's like having an in-house Wall Street banker," says Shawn Cumberland, Hong Kong-based managing director of Wing Merrill International Inc., developer of power plants.

"MONOPOLY PLAYER." Welch chose GE targets personally after a decade of travel to Asia and around the world. Fresco and other lieutenants were high on Africa and Latin America, where the potential stood in stark contrast to the sluggish growth forecast for the U.S. and Europe. Welch concluded these markets needed just the mix of capital and technology GE offers. "We're a company with great infrastructure strengths and, therefore, a company that ought to go where the growth is," he says. "It's clear to anyone that the growth will be in the Pacific Rim, India, and Mexico."

But such a strategy provokes controversy at home. GE and other U.S. companies have shed hundreds of thousands of jobs in the past decade. While the losses would be even greater without huge exports from the U.S., that's little consolation to some. "I think there should be laws narrowing the kind of work that can go overseas," says William H. Bywater, president of the International Union of Electrical Workers.

For Bywater, shifting GE's focus closer to home. Twenty years ago, the union had 70,000 members at GE; by

GE'S GLOBAL SALES SHIFT



d of this year, that number will likely all to 30,000. "Jack is the best Monopoly player I've ever seen," says Bywater. "He makes great deals for the shareholders. But I've got to look at what is going to help the economy of the U.S." To its credit, GE has changed its push into the 1980s when it simply shut down plants at home and bought what it needed abroad. To a much greater extent, the new strategy aims at penetrating fresh markets, rather than hunting for cheap labor. GE argues that this is a net plus to the U.S. Last year, for example, it exported \$5 billion more than it imported—twice as much as five years ago. GE points to Mexico, where its operations import some \$750 million U.S. goods, compared with the \$500 million GE exports from Mexico. Moreover, GE's total exports of \$8 billion help support some 160,000 jobs in the U.S., based on Commerce Dept. assumptions. For better or worse, GE's new push is an unstoppable momentum. Already, Fresco's efforts have caused a dramatic change in where GE makes money. In 1980, only two of GE's many businesses were true global players: plastics and jet engines. Since 1987, though, revenues from outside the U.S. have risen at an annual rate of 30% and now contribute 60% of the company's total sales. That's up from 29% five years ago. The day is not far off when the company that helped electrify America will earn more money outside its borders than inside. "Being national doesn't pay," says Fresco.

WELCH'S CADRE. To put left behind its strategy shift, GE is transforming its management ranks, moving Welch confidants to front-line positions in the field and attempting to create what Fresco calls "global brains" to manage operations in distinctly Third World cultures. This summer, Fresco dispatched W. James McNerney Jr., a fast-track young executive, from a Plainville (Conn.) electrical unit to Hong Kong in a senior post overseeing expansion. "We really want to have the same market shares in Asia that we do in the U.S.," says McNerney, one of the inner core of executives. That means, according to the GE credo, either No. 1 or No. 2. McNerney's move is just the latest in a shift of management abroad that has seen the number of officers in Asia double, to 20. That's in keeping with GE's projections for the region. The Power Systems unit, which makes generators and turbines, expects 50% of its future business to come from Asia. Ditto for Medical Systems, which has seen its overseas revenues soar from 15% in 1985 to 40% now. GE Aircraft Engines, downsized because of a slump in orders from the United States, won two huge orders, worth \$425 million, from Chinese regional airlines this summer. "Ten

CHINA

HEAD EAST—AND GUN THE ENGINES

A sense of gloom hangs over General Electric Co.'s sprawling jet-engine plant in Cincinnati, where the work force is shrinking from 17,000 two years ago to 8,000 early next year. Halfway across the world, though, it's a different story. Managers in the Beijing office of GE's engine division are competing flat-out against Pratt & Whitney and Rolls-Royce PLC to secure orders in the world's hottest aviation market. Chi-

and others lag behind. China's airlines use or have ordered 46 GE engines and an additional 200 engines made by GE's joint venture with France's SNECMA. Most Chinese airlines have bought new Boeing 737s, which use the GE-SNECMA CFM56 engine.

On other Boeing aircraft, where airlines have a choice of engines, GE is cutting aggressive deals by sharply discounting prices. In March, China Southern chose the new GE90 engine—

which is costing GE \$1.5 billion to develop—for its new Boeing 777s. As the ink was drying on the China Southern deal, GE won a \$225 million order with Xian-based China Northwest for engines to power 6 to 10 Airbus Industrie A300s.

PAYOFFS? To operate in China's freewheeling atmosphere, GE has to walk a fine line. The Chinese practice of payoffs and cozy deals conflicts with GE's clean corporate image—and U.S. antibribery laws. But the large size of GE's deals helps the company avoid problems with corruption, says Voeller. "The bigger projects receive so much scrutiny that there isn't much opportunity for that kind of thing," he says. Also, the company has found a way to give some perks to local officials without violating American law—by training some of them in the U.S. Last April, it sent 35 senior Chinese corporate executives to



TUNING UP GE HAS A THIRD OF THE CHINESE MARKET FOR JET ENGINES

na's airline industry plans to buy 100 widebody aircraft engines a year. "China has become a strategic battleground," says David Voeller, president of GE Aircraft Engines' China division.

To bolster its presence, GE is sending in more troops. It now has a 63-member Beijing staff—triple 1991's—with engineers in 10 cities across the country. Although GE has been selling jet engines in China for 14 years, only in the past year has it made China a priority. Since the beginning of 1992, GE has won \$500 million in engine orders from Chinese carriers. The jet-engine market in China mirrors the competitive state of the world market, with GE claiming about one-third of all orders and Pratt the same. Rolls

GE's Crotonville (N.Y.) campus for a management-training seminar.

With the current economic retrenchment in China and the resulting clampdown on lending, GE is using its own resources to keep partners' operations humming and its own markets intact. It's buying several million dollars' worth of parts from an aircraft factory in the northern city of Xian and shipping them back home to use in marine and industrial engines. And its GE Capital Services arm will help Chinese airlines facing tighter credit to lease new jets with GE engines. With other markets stuck in the doldrums, GE is relying on China to keep its engine division flying.

By Lynne Curry in Beijing

years from now, Asia will be the biggest market for us," says David Voeller, who runs GE Engines' Beijing office.

It's easy to understand why GE executives drool over China. It plans to add more than \$100 billion in power-generating equipment by 2000. It is buying 100 jet engines a year for wide-body aircraft. And it has only 1,300 CT scanners for its 62,000 hospitals and 200,000 clinics. So GE has tripled its staff in Beijing and is even planning to send an engineer to Inner Mongolia to service aircraft stopping overnight. "GE has undergone a complete turn-about within the past 9 to 12 months," says a rival.

China is in the midst of creating a financial sector that can fund its growth, and GE Capital sees opportunity there, too. The finance arm, which already has \$1.5 billion worth of aircraft on lease to Chinese carriers, is trying to talk Beijing into letting it set up one of the country's first commercial lending operations. The goal: to finance massive capital spending projects, such as a superhighway linking Beijing to Hong Kong, and the inevitable equipment purchases that will arise.

SOON, GE WILL MAKE MORE MONEY OUTSIDE AMERICA THAN INSIDE

GE is reaching deep into its bag of tricks to win business in these fast-developing countries. In Indonesia, where the company is part of a \$2 billion power-plant project, GE has offered an array of technologies to help upgrade the manufacturing base. And it has set up GE Technology Indonesia, which will enter into joint ventures in its tech-transfer schemes. That is a far cry from the days when developing nations looked at big multinationals as exploiters. Indeed, such company-to-country technology deals could become a model for GE as it moves into less developed markets such as Vietnam, where it has set up an office in anticipation of the lifting of the U.S. embargo.

While the majority of GE plants in Asia are aimed at satisfying local demand, it's a slightly different case in Mexico. In effect, GE is fully integrating the country into its emerging North American manufacturing strategy, even while the debate on the North American Free Trade Agreement rages. In 1990, in a joint venture with Mexican appliance company Mabe, GE built a factory in

San Luis Potosí. The idea was to take advantage of 30% lower labor costs to produce gas ranges for North America. The plant has been a smashing success, turning out nearly 30% of the gas stoves bought in the U.S. each year. The factory will reach 1 million units in just its third year of operation, and plans call for a 25% increase in output next year.

JUST THE TICKET. But the strategy in Mexico is more than searching for a cheap work force. GE has been a household name in Mexico for nearly 100 years, producing everything from light bulbs to plastic resin in 20 factories scattered across the country. But in the 1980s, GE made a push into big-ticket businesses such as appliances and power plants, taking the company, with its 21,000 Mexican employees, to a higher plane. With Mabe, it's tapping into the hungry domestic market for such items as refrigerators and washing machines, where demand is growing 5% to 7% a year. And GE's power business is leading an international consortium to build a \$600 million natural-gas-burning power plant near the U.S. border. GE's Mexico sales were \$1.5 billion last year—up from \$900 million the year before. Says Fresco: "We have a target to double that again over the next couple of years."

Mexico is also a laboratory of sorts

INDIA

AN ULTRASOUND FOOTHOLD IN ASIA

For three decades, GE's medical systems division ignored India. While rivals Siemens, Philips, and Toshiba dominated the market for diagnostic medical equipment, General Electric Co. let India fade from its radar screen. Two years ago, the company had just a sliver of the country's \$80 million market in medical equipment.

But now GE is playing catch-up with a vengeance. A joint venture with local personal computer maker Wipro Ltd., formed three years ago, produces CT scanners, applications software, and various ultrasound devices—including a 20-pound portable unit that is being developed especially for the Indian market. The venture's goal: to boost sales tenfold, to \$200 million, by the year 2000.

GE's showpiece in India is its 50%-owned medical systems venture, which is based in the southern city of Bangalore. Hardly a factor in India two years ago, GE is coming on strong in ultrasound devices, used for everything from detecting gallstones to monitoring the development of a fetus in a womb. The availability of the machines, though, while boosting

infant health, has created some unintended consequences. In India as in other developing countries, the technology is often used to determine the sex of a fetus—which in turn often leads to abortions of females. While some women's groups in India criticize the machines' new availability, Wipro GE President Vivek Paul says that sex determination is a "very, very small percentage of their usage."

THE NEXT GENERATION. Still, ultrasound is a \$16 million market in India, growing at a 20% annual clip. GE hopes to boost its profile even more next year, when it rolls out its next-generation portable ultrasound, aiming to put the machines in the reach of India's 1,000 largest hospitals and numerous small clinics. And by squeezing 75% of the functions of a conventional ultrasound into a 20-pound unit, says Paul, the device could fit in the back seat of a car as a doctor makes rounds at remote clinics. GE is working with local finance companies to help clinics and hospitals pay for the machines.

The basic ultrasound technology comes from GE's 75%-owned Tokyo joint ven-



HIGH PROFILE AT ITS WIPRO JOINT VENTURE, GE IS PLAYING CATCH-UP WITH A VENGEANCE IN MEDICAL EQUIPMENT

ture with Yokogawa Medical Systems Ltd. GE entered the venture in 1987 to obtain knowhow for "economy" diagnostic equipment, which was dominated by Japanese.

To actually design the new po-

GE's attempts to recruit and develop global talents in its management ranks. This challenge of creating a tier of internationally savvy executives is as big as any the giant faces. Part of the answer is to reach beyond its ranks to tap outsiders. Stanford University business school graduate James Polsfut, 34, for example, joined GE 18 months ago, after helping manage the city of Denver's infrastructure projects. A self-described "Spanish junkie" who won a fellowship to study in Costa Rica in the 1980s, Polsfut is one

of GE's three business-development managers in Mexico. In contrast, the acting resident in Mexico, Paul McBride, is a 10-year-veteran of GE's plastics operation. His preparation for the assignment was a two-month course in Spanish.

To make this management mix work, GE is exporting the training programs and concepts it has made *de rigueur* in the U.S. GE's focus on lean management, quick response, speeded-up product cycles, and productivity is now mov-

ing offshore, along with its capital and technology. In Mexico, for example, GE is starting a program for middle managers, who will be rotated through different assignments for two years. Those chosen will work by day and study by night. While common in the U.S., such programs are new to Mexico. In the U.S., meanwhile, new managerial-level hires are given courses in global issues at GE's Crotonville (N.Y.) training center. The teaching goes both ways. Senior

executives are routinely sent on four-week forays to foreign markets, then returned to Crotonville to brief Welch, Fresco, and others.

When all these ideas come together, GE will be what Welch calls a multipolar and multicultural company. It isn't there yet, but if any part of the group is close, it could well be the Medical Systems unit in Milwaukee. One of GE's hottest businesses, with \$3.5 billion in sales last year, it is a crucible of management and cultural experimentation—and a Welch favorite. For one thing,

Medical is skilled at moving its technology between markets. The low-end gear GE will make in China and India was developed in Japan with GE's 75% joint-venture partner, Yokogawa Medical Systems. In turn, engineers in India and China are developing low-cost products that could serve markets in Latin America and the U.S., where there is a demand for cheaper machines from a cost-conscious medical community.

Medical Systems is also bringing peo-



SOUTHERN CHINA GE EXPECTS 50% OF ITS FUTURE POWER BUSINESS, SUCH AS THESE TURBINES, TO COME FROM ASIA



er, GE is tapping India's vast pool of expensive but gifted engineers. Which has tie-ups with Sun Microsystems and Epson, brought experience in diagnostic equipment. Most of

the all-Indian team of eight engineers working on the project came from Wipro. GE hopes to market the budget devices in other developing countries, too.

Boosting market share in higher-end products will be more challenging. Sie-

mens, which has been making X-ray machines in India since the 1960s and controls more than half of the overall diagnostic market, has a reputation for superior technology and service. So to get its name out, Wipro GE has begun sponsoring lecture tours in India by famous American surgeons who use its equipment. It recently flew Dr. Harold Coons, a surgeon at Sharp Memorial Hospital in San Diego, to Bombay to demonstrate a fertility procedure.

SLOW PROCESS. Still, the competition isn't resting. Siemens is boosting its manufacturing in India, too. Philips also is now making low-cost ultrasound devices in the country, and Toshiba is exploring a production facility. GE is "going at it in a much more professional way," concedes Umush Chandra Dimri, marketing director for Siemens' Medical Engineering Div. in New Delhi. "But their success won't come fast."

But while it may have difficulty being No. 1 or 2 in every segment, GE figures markets such as India's are too important to ignore. "If you aren't in Asia," says Joren Malm, president of GE Medical Systems' Asia operations, "in 10 or 15 years you might as well be nowhere." India slipped from GE's sight once before. It won't happen again.

By Pete Engardio in Bangalore

ple and ideas from those far-flung lands back to Milwaukee, where it's common to see engineers and managers from Asia working side by side with Americans and Europeans. Designers in Milwaukee also rely on software developed by the joint-venture partner in India. "We're going beyond the manufacturing" in using foreign work, says Claude Benchimol, a French manager who runs worldwide CT engineering out of Milwaukee. "We're doing joint design."

For all GE's businesses, the question is no longer whether they will push into developing markets, but just how big they will become. In the past few years, that new reality has set in, drummed in by Welch and Fresco. It's a strategy that seems likely to pay off for GE, its

shareholders, and its cadre of U.S. managers. It's also a win for the thousands of workers whose jobs are more dependent on orders from the emerging new markets. Up against the toughest Japanese and European giants, GE insists its global push is boosting competitiveness, which in turn safeguards U.S. jobs.

In effect, GE is telegraphing the message that for the company to remain competitive and profitable, it has to establish deep manufacturing, technological, and financial roots elsewhere, even if that's at the expense of some factory jobs in the U.S. tied to slower markets. "The modern company has to spread its brains, its centers of excellence," says Fresco. "It really is a citizen of many countries rather than a citizen of one."

This debate over a major company's responsibility to its home market has been raging for decades. It can only intensify as hundreds of other U.S. companies wrestle with the opportunities and challenges that Welch and Fresco see in the developing world. Increasing numbers of U.S. companies, no longer able to rely on the world's largest industrial market, now are trying to learn to compete globally. GE is one model. It will be up to the likes of Welch, Fresco, and their colleagues to prove that greater global success on the part of one America's strongest and biggest companies pays off at home, too.

By Tim Smart in Fairfield, Conn., Peter Engardio in New Delhi, and Geri Smith in San Luis Potosi, Mexico

MEXICO

THIS VENTURE IS COOKING WITH GAS

An engineer huddles over an Apollo workstation from Hewlett-Packard, designing parts for a gas-range prototype. Nearby, a hermetically sealed chamber recreates the heat and humidity of Mexico's Yucatán peninsula, and 40 probes tell a computer how well a refrigerator is performing under tropical conditions. "Just a few years ago, we had to take readings by hand," recalls Luis Hoyos Parrao. He's director of the new \$7 million research and development center built by appliance maker Organización Mabe in Querétaro, in central Mexico, soon to be dedicated by none other than President Carlos Salinas de Gortari. With its state-of-the-art technology and top-notch research, it's just the kind of project Salinas loves—proof that Mexican manufacturers can compete at the highest levels.

In this case, though, the company is half-Mexican. The partner is General Electric Co. Now six years old, the joint venture is a model of the north-south cooperation that supporters of the North American Free Trade Agreement dream of: GE has access to low-cost labor and Mexico's fast-growing appliance market. At the same time, Mabe piggybacks on GE's worldwide purchasing clout and its cutting-edge technology. "They learn some things from us, and we learn from



STOVE-TOP BURNERS PUT OUT BY A GE-MEXICAN COMBINE—THE STUFF NAFTA BACKERS DREAM ABOUT

them," says President J.J. Dupuis.

Mabe also plays a key role in GE's plan for North America. In the past five years, Mexico has displaced Asia as the most important source of mini-refrigerators for the U.S. One reason: Sanyo Electric Co. now ships most of the 1.1 million minirefrigerators imported each year from a border assembly plant in Tijuana. Mabe, meanwhile, has countered Sanyo, grabbing nearly 30% of total U.S. imports.

LIGHT TOUCH. Gas ranges, though, are Mabe's strongest export. GE had never before manufactured the appliances. So in an unusual reversal of roles, Mabe provided the knowhow, while the American partner weighed in with manufacturing technology and production schemes. The venture hit pay dirt: It now supplies fully one-third of all

the gas stoves bought in the U.S.

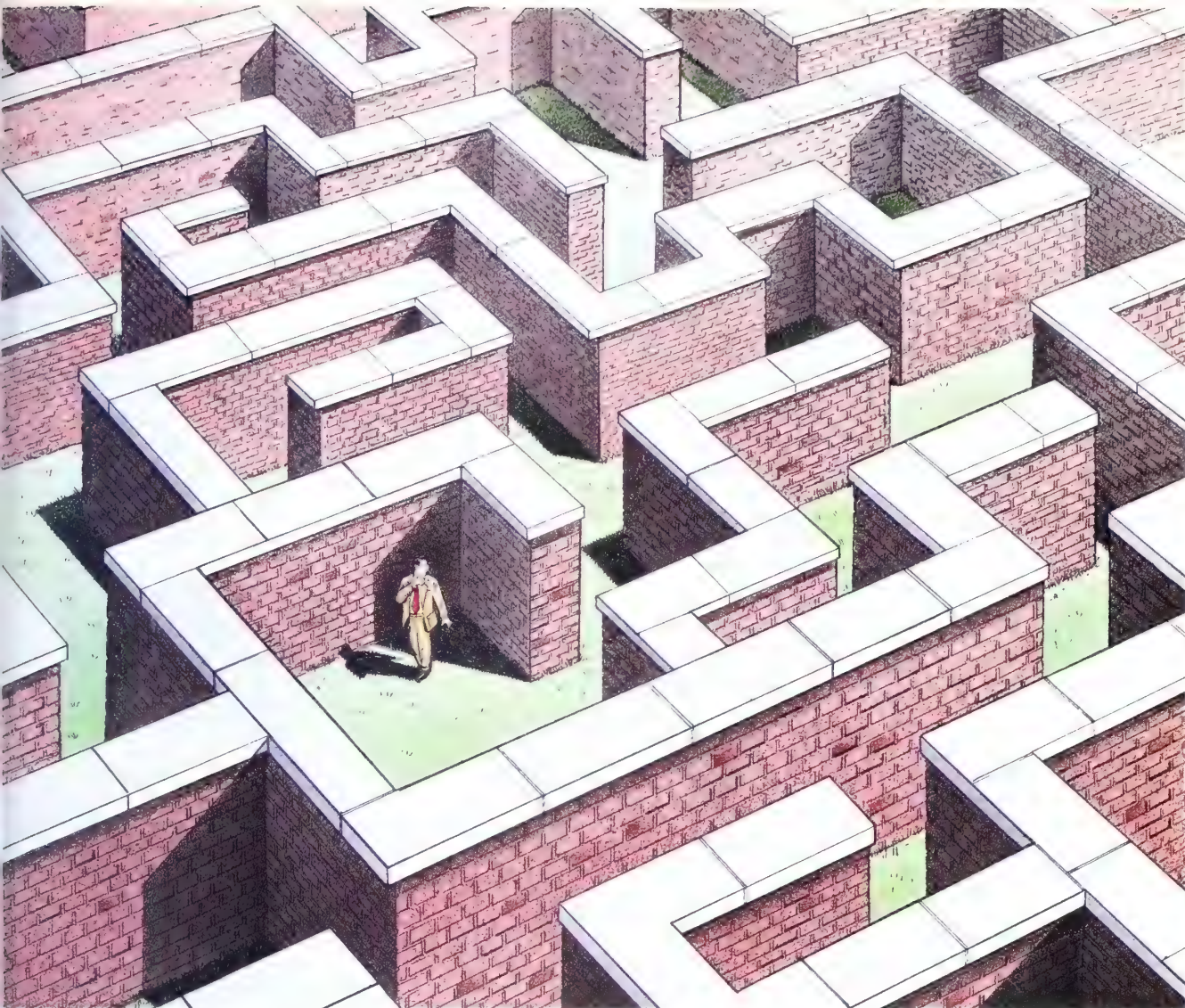
In Mexico, that's reason enough for bragging. But the same success is controversial in the U.S., where the NAFTA debate is in full swing. GE haster to point out that 80% of the ranges' components come from the U.S., creating an estimated 2,500 American jobs, equal to those in Mexico. Last year Mabe imported \$20 million more in products from the U.S. than it exported, insists Dupuis.

GE avoids the image of being a foreigner in Mexico by maintaining as light

a management hand as possible. Local Mexican executives report direct to GE's appliance chiefs in Louisville, not to a GE country manager in Mexico. That approach allowed Mabe to take out management and production concepts such as multiskills training and just-in-time systems as quickly as GE does at home.

The new R&D center, painted in bold blues and oranges, stands as a monument to GE's big bet on Mexico. Nearly half of its 148 researchers and engineers have studied at GE's Louisville center. Its research team bristles with advanced degrees, and two-thirds of the researchers are 30 or younger. "We're advancing quickly here," says Director Hoyos. It's an understatement: GE can certainly live with.

By Geri Smith in Querétaro



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'WE'LL NEED HILLARY CLINTON IN HOLLAND'

Europe's health plans are hemorrhaging. Will managed care work?

Elke van der Veen is worried. The Dutch government wants him to help lead a radical program to cut exploding medical costs. Health officials have already unshackled his nonprofit insurance fund, one of the largest in the Netherlands, so it can compete for customers instead of merely paying bills according to a list of government-set prices. Now, they want the Amsterdam health-care executive to live on an annual budget, based on the number and type of people he enrolls. Soon, they will ask him to bargain with hospitals and doctors over prices. But van der Veen doesn't believe health care should be left to the savagery of the market. "In a few years, I think we'll need Hillary Clinton in Holland," he muses.

Van der Veen's concern? It's called managed competition, European style. And the Netherlands, while furthest along, is not the only country embracing it. As in the U.S., governments all over Europe are struggling with the problem of soaring medical bills—and coming to the same conclusion: The way to hold down costs is by introducing market forces into government-run programs. But as President Clinton soon may learn, policy prescriptions that look good on paper often have unintended side effects that cause traumatized patients, providers, and payers to stymie reform.

FACT UP. While the Clinton Administration seeks greater government control over what is mostly a laissez-faire system, Europe is looking at ways to reduce the top-heavy role of government. The two may be coming from opposite ends, but their solutions are already converging. "There's a growing understanding that what's needed are strong incentives for people to make economic choices," says Stanford University health economist Alain C. Enthoven, one of the architects of managed competition, who has advised both the Dutch government and the Clinton Administration. That's a bitter pill for many European governments, which as little as two years ago held up their systems as models of what the U.S. health-care system should be.

Yet Europe is grappling with the same problems that plague the U.S.—an aging population, rising number of AIDS cases, and expensive new medical technology, all of which are driving up the cost of care.

What isn't widely understood on either continent is how to implement a managed-competition approach. No one has yet tried it on a large scale. And as the Netherlands' experience shows, the obstacles are enormous. That reform program has become a volatile political issue among the normally cooperative Dutch population. As a result, the changes are on hold until after elections in May, 1994. The force behind reforms, Health Secretary Hans J. Simpson, will retire next month from national politics.

But even where European governments aren't looking to purely market solutions, they're drifting away from the social pact they've had with citizens for generations: that all health-care needs will be met from cradle to grave. For the past two years, European governments, especially Belgium, Britain, France, and Germany, have been forcing patients to foot more of their bills through copayments, limits on doctor visits, and crackdowns on payments for such luxu-

ries as government-paid spa therapy and plastic surgery. But such regulatory efforts haven't done the trick, and now the governments are looking more toward structural reforms, such as Britain's move toward increased competition among its doctors. "They're all being squeezed, and they're all having to revent their health-care systems," says William Wheeler, a health analyst at Andersen Consulting.

Even Germany, long a model for other countries, with its quasi-private network of "sickness funds" that negotiate prices and services with providers, is tightening its belt. It's seeking to trim the \$125 billion health budget by 6 or \$7 billion, with \$1.5 billion of that coming from prescription drugs. In January, the



WESTERN EUROPE'S ROCKY ROAD TO

Country	Current system
BRITAIN	National Health Service, financed by a tax, provides universal care, but it is inefficient and underfunded.
NETHERLANDS	Universal coverage through regulated insurance cartels, but a two-tier system strains the government as unemployment rolls increase.
GERMANY	Quasi-managed care system funded by employer/employee contributions, but patients pay little or nothing out of pocket and often overuse system.
SWEDEN	Decentralized system of universal care run by 23 regional councils. Patients pay \$20 a year, so there is little cost awareness.

government ordered a 5% reduction in prescriptions for two years and threatened to dock the pay of doctors who overprescribed. The government also is moving away from reimbursing hospitals by the day and toward payments for diagnoses. Germany hopes that this will shorten hospital stays, which now average 16.2 days—the longest in any European country.

Despite the cuts, universal health care is still one of the hallmarks of life in Europe, where doctors in most countries still make house calls. While Europe's systems vary widely, they generally fall into two categories. One is a compulsory, insurance-based scheme financed mainly by employer and employee contributions, as in France, Germany, and the Netherlands. German workers and their employers, for example, each pay as much as \$250 a month for care. Other countries offer a government-run program financed by payroll taxes, as in Britain, Italy, Spain, and Swe-

den. The remaining countries use a combination of the two. They all provide basic benefits to young and old, healthy and sick, regardless of income or preexisting conditions.

At first glance, Europe's health-care spending may not seem out of control: It averages 8.5% of gross domestic product, well below America's 14%. But a larger portion of each country's bill is shouldered by the state—eating into its ability to improve education or fight crime. Sweden's government, for example, pays 99% of the bill, while the Dutch government foots about 65%. Washington, by contrast, pays about 40% of the nation's health tab.

"OUCH!" As European governments come to realize that they can't be all things to all people, they're looking at how to harness market forces to make hospitals, doctors, and patients aware of the true costs of care—in hopes they'll

change their habits. For example,

Belgium is ordering all patients to have a primary-care gatekeeper within a year, while Italy is setting per-capita budgets for each of 21 regions. But as Dutch politicians are finding out, shaking up the old order makes everyone cry: "Ouch!"

To trim a health bill approaching 10% of GDP, the Dutch government wants to transform its state-run system, which has never before heeded the laws of supply and demand. Under the old regime, the top 40% of wage earners belonged to private, employer-provided insurance programs. The remaining 60% of the population, including low-wage earners and the unemployed, belonged to nonprofit insurers called sickness funds, a combination of America's Medicaid and Blue Cross plans. Employees and government grants also support a central fund for extraordinary care, including nursing-home stays.

Yet while private insurance plans are running smoothly, sickness funds such as the one managed by van der Veen are struggling to provide for the 60% of the population at highest risk—immigrants, the elderly and chronically ill, and Amsterdam's huge drug-addict population. Because insurers with their local monopolies have no incentives to cut costs, a web of price controls and tariffs has sprung up. In addition, the central fund for extraordinary health costs such as nursing-home care now eats up 45% of total health spending.

UP IN ARMS. The new Dutch system eliminates differences between private insurers and sickness funds and forces them to compete for patients. The government has insisted that neither benefits nor the quality of care will be compromised. But the reforms have everyone up in arms. Employers say higher premiums to finance the new system will make them uncompetitive. Wage earners complain that they, too, must pay higher premiums to further subsidize a growing army of unemployed. Physicians worry that treatment decisions will be driven by economics, and insurers such as van der Veen, many of whose clients are on the bottom rung of society, don't believe they will get their fair share of the overall health-care pot.

The problem the Netherlands is facing may be the mirror image of what Clinton will have to confront as he tries to make his health-care plan a reality. As different countries try to move to managed competition, sacrifices will be required by all parties in the debate. What the policymakers are learning is that reform in any language is painful.

By Paula Dwyer in London, with Patrick Oster in Brussels and bureau reports



AGED COMPETITION SYSTEM

	Problems
led the NHS into purchaser and groups and lets 300 hospitals and physician groups compete.	NHS reforms are politically volatile. Some underused London hospitals have been slated to close, creating an outcry.
most ambitious reform plan, using private insurance with government funds. Patients shop for which negotiate with providers.	Reforms requiring employers and employees to subsidize the less well-off created a political backlash so great that they are on hold until after May, 1994, elections.
ment aggressively cutting cost of care bill, with prescription drugs being hit. Hospitals to be paid per patient per day.	More cost-control measures may be needed as pressures grow from immigrant population, growing unemployment, and a deepening recession.
enting with several reform content envision more patient choice but national financing and oversight.	Reform is hampered by the lack of primary-care doctors to serve as gatekeepers for more expensive care.

BUSINESS WEEK

OTHER THAN A MILD CENSURE BY THE NYSE, GEORGE BALL HAS NEVER FACED CHARGES



IS GEORGE BALL'S LUCK RUNNING OUT?

The Pru Securities probe isn't over—and execs could be charged

George L. Ball has "led a charmed life," says Alan R. Bromberg, a securities expert at Southern Methodist University Law School.

Ball was president of E. F. Hutton & Co. from 1969 to 1982, a period when the then-major brokerage house engaged in a huge check-kiting scheme. The brokerage later pleaded guilty to mail and wire fraud. From 1982 to 1991, Ball was chief executive of what is now Prudential Securities Inc. During that time, according to an Oct. 21 Securities & Exchange Commission order, the firm repeatedly failed to supervise its employees properly, most blatantly in allowing them to defraud hundreds of thousands of investors in limited partnerships. On Oct. 21, without admitting or denying wrongdoing, Pru Securities agreed to pay at least \$371 million in fines and restitution.

Yet, other than a slap-on-the-wrist censure by the New York Stock Exchange, George Ball has never been charged with illegalities. He continues to work on Wall Street as a senior executive vice-president of Smith Barney Shearson Inc., a unit of Primerica Corp. Ball was hired to recruit brokers, but his

current role is unclear. He is no longer on the firm's executive committee.

But now, Ball may be facing a very different atmosphere. The SEC is cracking down on top brokerage officials who failed to supervise underlings properly. While declining to comment about the Prudential case, SEC Commissioner Michael L. Schapiro says in general, the agency "will go right up the line" to the most senior executives.

Ball has not been named by the SEC in charges against Pru Securities. Samuel A. Keesal, Ball's attorney, says: "We can only say that George had no knowledge or understanding of any wrongdoing, if in fact it occurred." Ball, who was on a bicycle trip in France, could not be reached for comment.

In the SEC's Oct. 21 order against Prudential details violations by the firm

it discusses potential securities-law violations by unnamed individuals. William R. McLure, the SEC chief of enforcement, says the Prudential securities investigation is still going on, but he won't say whether executives will be targeted. Less circumspect is Wayne Klein, the SEC's chief of state securities task force of state regulators that assisted the SEC's Prudential investigation. "I expect state will take action against individuals," he says.

One Prudential executive identified by the SEC order is

A TROUBLED TRACK RECORD

1969-82 Ball serves as president of E.F. Hutton. From 1980 to 1982, Hutton conducted a massive check-kiting scheme that bilked banks. Hutton pleaded guilty to 2,000 fraud counts in 1985.

1982 Ball leaves Hutton to become CEO of Prudential-Bache Securities.

1986 Pru-Bache is censured by SEC for failure to supervise brokers who improperly sold risky securities. Firm agrees to beef up compliance.

1988 Ball is censured by the New York Stock Exchange for failing to provide adequate supervision while at Hutton.

1991 Ball resigns from renamed Prudential Securities and becomes senior executive vice-president of Smith Barney. He steps down from Prudential following allegations of extensive wrongdoing involving \$8 billion in limited partnerships, many of which went sour.

OCT. 21, 1993 Prudential settles wide-ranging SEC charges that it misled and defrauded limited partnership investors, without admitting guilt. It agrees to pay at least \$371 million in fines and restitution.

m's general counsel since 1982, Loren Schechter. Ball recruited Schechter from Hutton in 1982, where Schechter was deputy legal counsel. Schechter, who the Oct. 21 order says has been responsible for the firm's compliance since at least 1986, was Pru Securities' top legal officer during Ball's tenure. Despite the raised eyebrows of at least one regulator, Schechter was the firm's key negotiator on the \$371 million settlement. Schechter has not been named in any SEC charge. He declined to respond to written questions.

Hardwick Simmons, Pru Securities' chief executive, strongly defends Schechter and says he does not believe Schechter will be charged with wrongdoing. "The SEC felt he had not done the job, but he wouldn't be a credible negotiator," says Simmons. Although Simmons won't name names, he says: "The people who had real responsibility are all gone."

Ball's possible involvement with the scandals at Hutton and Prudential has long been a matter of speculation on Wall Street. Documents, including a memo written by Ball, as well as testimony in the case, indicate that Ball and other Hutton senior executives exhorted branch managers to participate in what amounted to an elaborate check-over-inflating scheme that bilked banks out of millions of dollars. Hutton pleaded guilty more than 2,000 felony counts in 1985. Ball, who argued later that he was not directly responsible for cash management, was censured by the New York Stock Exchange in 1988.

Regulatory problems followed Ball to Prudential Securities. During his tenure as CEO, the firm repeatedly ignored obvious compliance violations. In 1986, the SEC alleged that Prudential brokers in Atlanta failed to disclose important facts about a seafood outfit called Captain Crab Inc. and had funneled money from customers' accounts. The SEC said the case showed a pervasive weakness in the firm in supervising employees. The Oct. 21 SEC order says the Captain Crab action "was the fifth time since 1982, that the SEC found Prudential and its predecessor firm to have failed in their supervisory responsibilities." The order also outlines several instances where Pru "senior executives" were informed about compliance problems and possible violations of securities laws by brokers but did nothing. In settling the Captain Crab case, Prudential accepted a censure and agreed to recommendations of an outside consultant to beef up its compliance procedures. And it made clear that Schechter is responsible for the firm's compliance. "Schechter made representations that the firm had gotten rid of incompetent people who were involved and that they were cleaning things up. That obvi-

TRYING TO HEAL PRU'S BLACK EYE

When Hardwick Simmons signed on as chief executive of Prudential Securities Inc. in May, 1991, he ran into lots more trouble than he bargained for. Simmons initially believed that the firm's liabilities for the limited partnerships it sold in the 1980s would be less than \$50 million. But to double-check, he asked a trusted lieutenant to look at the numbers. To his amazement, the estimate came in at several hundred million dollars.

Today, Simmons has gotten used to the size of the hit. And he is extremely upbeat about the Oct. 21 settlement. With the matter in the news for the past two-and-a-half years, Simmons believes that the worst is over and that customers have accepted the idea that the firm has been cleaned up: "It's one last punch. The eye already got blackened."

any signs of weakening," he says.

Analysts think that having to make such a huge reimbursement to investors for their losses will hurt the firm's image. "Your reputation takes a bit of a hit," says Chester Murray, associate director at Moody's Investors Services. "But from a financial perspective, they can certainly deal with this."

LITTLE CHOICE. The brokerage's saving grace is that it is owned by Prudential Insurance Co. of America, which has some \$11 billion in capital and took in \$35 billion in revenues in 1992. When Drexel Burnham Lambert Inc. pleaded guilty to fraud charges in 1989, it soon slipped into bankruptcy after its bank financing dried up. Prudential Insurance felt it had little choice but to stand behind its subsidiary. "If the Pru were ever to step back from a claim it owed," Simmons says, that could undermine its entire business.

But Simmons concedes that the firm hasn't exactly emerged unscathed. He estimates that Pru Securities has to set aside \$1 dollar in reserves for every dollar it makes to pay for its limited-partnership liabilities. And he concedes that "it's harder for financial advisers to get new accounts," since they have to battle the firm's sullied image. "It feeds the frenzy of competitors who will Xerox articles and send them to our customers," he says. In July, brokers were opening 30,000 new

accounts a month. That number dropped to 21,000 in September.

Another problem is that current Pru Securities customers who still own limited partnerships and want their share of the settlement money will have to file a complaint against their longtime brokers. Because of turnover among brokers and customer flight, only 12% of the firm's clients still own limited partnerships. But "it creates an awkward moment," says Simmons. For Simmons, it has been two-and-a-half years of awkward moments—and counting.

By Leah Nathans Spiro in New York



Simmons' first priority was making sure that the states allowed Pru Securities to stay in business. "This removes the threat to our licenses. That's terribly important," he says.

ABOVE AVERAGE. Simmons points to the firm's strong earnings, which were \$61 million in the third quarter before taxes and reserves. Assets under management increased from \$14 billion on Sept. 30, 1992, to \$21 billion a year later. Mutual-fund sales were 12% above the industry average, says Simmons. And lenders and institutional investors have stayed loyal. "The business isn't showing

ously didn't happen," says Jared L. Kopel, a former SEC enforcement officer who was involved in the case. Kopel is now a defense attorney on the West Coast. Simmons again defends Schechter and says he brought the compliance problems to the attention of his then superiors.

One illuminating episode involves a Dallas Pru Securities broker named J. Frederic Storaska, one of the firm's top producers. The SEC's recent order alleges that an unnamed Dallas broker—who sources say was Storaska—operated a Prudential-Bache Securities Inc. office in Dallas virtually unsupervised. By 1989, Storaska was the target of numerous customer complaints accusing him of unauthorized trades. The SEC order says his "disregard for firm policies and procedures, as well as the existence of 10 customer complaints, were brought to the attention of senior management as the result of an examination by the New York Stock Exchange." The SEC, though, says Storaska "was never formally disciplined or fined." He left Pru Securities in 1992.

GLOWING MEMO. Storaska worked for Ball for years, according to arbitration claim filings in Dallas. He worked at Hutton when Ball was president. Ball recruited him for the Dallas office in 1984. According to the SEC order, Storaska told customers and Pru-Baché superiors that he "reported directly to the firm's chief executive." Whenever Storaska was threatened with disciplinary action, he invoked Ball's name, according to Dallas arbitration records. Storaska claimed his employment agreement was with Ball alone. Investors' attorney Tracy Pride Stoneman says arbitration records support Storaska's claim. In 1990, a Pru Securities compliance audit recommended that Storaska's office be disbanded. But the SEC order says "senior management" countermanded the move. Stoneman says there is evidence that Ball protected Storaska, but she declined further comment. Ball is named in at least nine investors' arbitration claims for failing to supervise Storaska.

Ball is fighting the charges. Keesal, Ball's lawyer, says: "When Frederic Storaska was hired, he appeared to be exceptionally capable and exceptionally successful with no significant problems in his past. And I'm hopeful that will be demonstrated in the pending litigation." Storaska's attorney, Dennis J. Bloch, says his client did none of the things suggested in the SEC order, that the allegations are untrue, and that the SEC has not

**MANY OF THE
WORST ALLEGED
ABUSES OCCURRED
AFTER PRU WAS
SUPPOSED TO
HAVE REFORMED**

even talked to Storaska.

Ball was also close to another big producer at Pru-Bache: James Darr, who ran its limited-partnership operation. When Darr left during a 1988 internal investigation of his business practices, Ball wrote a glowing memo to employees. "We are deeply grateful to Jim. Our direct investment group is

the finest in the field. Jim started it, nurtured it, expanded it, and led it."

The firm's limited-partnership abuses raise substantial doubt about its compliance procedures. Although the allegedly fraudulent sale of limited partnerships began before the Captain Crab settlement, much of the most egregious alleged wrongdoing occurred from 1986 to 1988, after Pru-Bache was supposed to have instituted reforms.

The SEC's McClucas won't comment directly about who was responsible for the firm's apparent failure to enforce

the 1986 order. But he does say: "Theoretically, the top guy—chairman and CEO—could be viewed as responsible for carrying out an [SEC] order."

Two recent SEC cases show the agency's growing willingness to discipline top executives. Last December, the SEC reached settlements with three former Salomon Inc. executives in the aftermath of Treasury-bond trading scandal. Ex-Chairman John H. Gutfreund was fined \$100,000 and agreed not to run a securities firm without SEC permission. The SEC also censured Frederick H. Joseph, Drexel Burnham Lambert's CEO, for failing to respond to red flags that should have alerted him to illegal activities by Drexel's junk czar, Michael R. Milken. Joseph was banned from ever running a securities firm again.

Whether Ball knew about systematic wrongdoing at Hutton and Pru Securities during his tenure remains unclear. But if he didn't know, he certainly should have.

By Michael Schroeder in Washington and Leah Nathans Spiro in New York

MONEY MANAGERS

THE CERTAIN VICTOR IN THE PARAMOUNT WAR

Capital Group's Gordon Crawford will win no matter who prevails

The wall of photographs makes it clear: Gordon Crawford is a player. Interspersed among the numerous family photos blanketing the walls of his downtown Los Angeles office are shots of a smiling Crawford arm in arm with entertainment dealmaker Herbert A. Allen. There's Crawford with longtime friend and Warner Brothers President Terry Semel. And over there is Crawford, clad in fishing attire, alongside buddy Ted Turner and wife Jane Fonda, during one of his annual trips to Turner's Montana ranch for a week of fly-fishing.

Unknown to many outside the tightly knit circle of entertainment-industry potentates, the low-profile, soft-spoken Crawford is a key figure in the hottest takeover battle in years. As entertainment, cable, and cellular-communications analyst for Capital Group Cos., the Los Angeles-based investment management and mutual-fund giant, the 46-year-old Crawford holds sway over 10 million shares of Paramount Communications

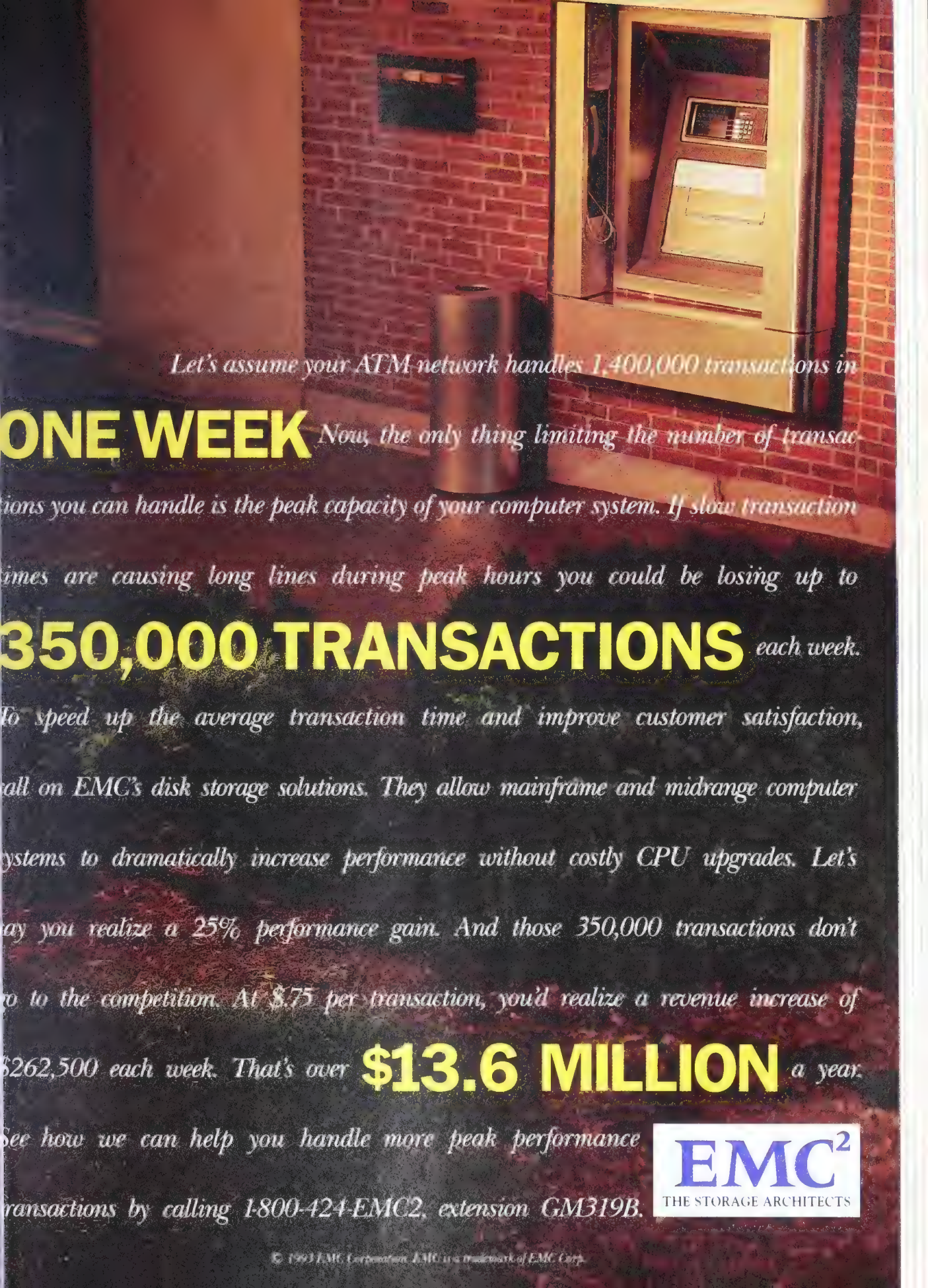
Inc., roughly 8% of the stock. Indeed, Capital Group is Paramount's largest institutional shareholder and could have a major impact on whether Viacom Inc. or QVC Network Inc. wins control of Paramount.

The bidders are lobbying hard. Crawford speaks at least once a week with Viacom Chairman Sumner M. Redstone, and even more frequently with QVC Chairman Barry Diller. And it's not the first time Crawford has been in the thick of a takeover brawl, either. I

CRAWFORD'S TOP FIVE MEDIA TREASURES

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TELE-COMMUNICATIONS**	32	0.948	3.8
PARAMOUNT COMM.	10	0.776	8.0
WALT DISNEY	12	0.498	2.3

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1989, Crawford openly backed Warner Communications Inc. over Paramount in the fight for Time Inc.—which Warner ultimately won.

This time, if Crawford has a favorite, he's keeping it to himself. He says he's only interested in the highest bid. "At the end of the day, the guy who puts up the most cash is going to win," says Crawford. Indeed, the Paramount battle has already made Crawford's clients and mutual-fund shareholders a bundle. His Paramount stake, amassed since 1985 for an estimated \$400 million, is now worth \$808 million, and the bidding isn't over.

BIGGEST COUP. No doubt, a lot of Crawford's clout comes from his firm's deep pockets. Managing more than \$125 billion in mutual-fund and pension-fund assets, Capital Group, one of the nation's largest investment managers, has accumulated hefty stakes in just about every major publicly owned entertainment, cable, and cellular-communications company (table), including both rivals in the Paramount fight. And Crawford not only directs much of his firm's overall media investments but under an unconventional team-management system at Capital Group, he also runs portions of several of the company's mutual funds, such as AMCAP Fund, Fundamental Investors, and Growth Fund of America. Together, the various pieces of the funds he oversees total about \$4 billion in assets.

The Paramount buyout is sweet, but it's not Crawford's biggest plum. His all-time hit was the 38% stake he bought in Liberty Media Corp. in 1991, when the cable-programming company was spun off from Tele-Communications Inc. Wall Street was slow to appreciate Liberty's valuable assets. Crawford paid \$1.25 for shares that will fetch about \$35 each if Bell Atlantic Corp. gets the regulatory go-ahead to acquire Tele-Communications. "That was the coup of all time," says Donaldson, Lufkin & Jenrette Securities Corp. analyst Dennis H. Leibowitz.

Crawford has had his turkeys as well. Caught up in the 1980s' binge of independent film startups, his investments in Imagine Films Entertainment

and Caroleo Pictures Corp. were big losers. His big stake in Time Warner Inc. has been a laggard. Even Crawford admits he erred by selling millions of shares in McCaw Cellular Communications Inc. a few weeks before the announcement of its deal with American Telephone & Telegraph Co. "We left a lot of money on the table on that one," he laments.

Still, many money managers have deep pockets and enviable track records but don't have the entrée to industry heavyweights that Crawford does. Movie

Married for 27 years, Crawford is a homebody who is more likely to be found coaching his niece's soccer team than making the Hollywood party scene.

While scoring some huge successes at the office, Crawford has experienced tragedy at home. In April, 21-year-old Brett Crawford, one of his two sons, fell into a gorge during a hiking expedition in Taiwan. Crawford's friends came to his aid—Ted Turner offered to press the Taiwanese army to join the search for Brett, while superagent Michael Ovitz made calls to Washington politicians to



KEY CABLE PLAYER: CRAWFORD HAS STAKES IN TURNER, GAYLORD, CABLEVISION, JONES, AND COMCAST

moguls value his insights into their business so much that they often seek his counsel. Former Columbia Pictures Entertainment Inc. executives Victor A. Kaufman and Lewis J. Korman, for example, came calling before they created Savoy Pictures Entertainment Inc. in early 1992. Over dinner at the Beverly Hills Hotel, they sought his advice on the planned capital structure of the film company and on whether the timing was right for a new production company at all. "Every time we've done a financing of some sort for Savoy, we've called Gordie," says Enrique F. Senior, managing director of Allen & Co. and Savoy's investment banker.

For all his glitzy connections, Crawford is decidedly un-Hollywood. Raised in Greenwich, Conn., Crawford joined Capital Group in 1971 after earning an MBA at the University of Virginia.

keep the search a top priority. Brett's body was never recovered, and he was presumed dead. "It's been a bittersweet year," Crawford says quietly, adding that the outpouring of support from friends and family is helping him through a very slow recovery.

There has been plenty to keep Crawford busy at work. Entertainment, cable television, and telecommunications companies are all trying to prime themselves for the multimedia age—and it's Crawford's job to figure out how to make money from that. He has Capital Group well-positioned in such key companies as Turner Broadcasting System, Gaylord Entertainment, Cablevision Systems, Jones Intercable, and Comcast. "It's like musical chairs," says Crawford of the cable business. "The telephony companies are circling these remaining chairs, and it's getting late." With major stakes in just about every chair out there, Crawford is likely to come out the winner whenever the music stops.

By Amy Barrett in Los Angeles

CRAWFORD HAS ALSO MADE BAD CALLS: HE SOLD McCAW SHARES WEEKS BEFORE THE AT&T DEAL

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 UNITED AIRLINES

Commentary/by Kelley Holland

ONCE AGAIN, BANKS ARE LEAVING INVESTORS IN THE DARK

Banks have a checkered history when it comes to new ventures. From less-developed-country loans in the 1970s to commercial real estate and leveraged-buyout loans in the late 1980s, banks have chased one another into seemingly profitable new areas only to find themselves often hit with big losses.

Today, one hot activity for many banks is trading in derivatives. Derivatives are contracts that are linked to such things as interest rates, foreign-exchange rates, commodity prices, and market indexes, whose values vary over time. Often, companies swap streams of payments with one another to modify their exposure to these variables. These days, many financial and industrial companies use derivatives routinely, which is giving lots of new business to banks that sell derivatives contracts. Some individual major banks have derivatives tied to several hundred billion dollars in assets.

That may seem fine. But unfortunately, under today's accounting and disclosure rules, it's almost impossible for outsiders to get anything but the sketchiest picture of a given bank's derivative activities. One example: Citicorp's 1992 annual report. Citi actually provides more details on its derivatives than many banks do. But almost the only statistics it publishes are the aggregate amount of the principal underlying its derivatives and the associated "credit risk," or the amount the bank would have to pay to replace its derivatives contracts if they were suddenly terminated. That's hardly enough to allow the average investor or corporate financial officer to get a handle on Citi's derivatives business.

NEED TO KNOW. Why should banks tell more? Plenty of reasons. One is potentially huge risks. Derivatives markets have occasionally been shaken by sudden rate shifts. For example, Showa Shell, a Royal Dutch/Shell Group affiliate, earlier this year declared an unre-

alized loss of more than \$1 billion from a currency hedge. Joe Kolman, editor of newsletter *Derivatives Strategy & Tactics*, says the extent of the loss "was not known even to the people at Showa." Citi, Bankers Trust New York, and J.P. Morgan found themselves with a credit risk approaching \$114 million from swaps contracts when Mutual Benefit Life Insurance Co., a New Jersey insurer, failed in 1991.

The International Swaps & Derivatives Assn., the trade group for de-

Some useful changes are afoot. The Group of Thirty, whose members are bankers and finance experts, is recommending more numerical information and substantially more discussion of banks' approach to managing their derivatives businesses. The Financial Accounting Standards Board has boosted requirements on accounting for derivatives, and the International Accounting Standards Committee, a group of accounting professionals, is also developing recommendations for more comprehensive accounting standards. Legislators are looking at derivatives too: The House Banking Committee held hearings on derivatives during the week of Oct. 25.

QUALITY COUNTS. Still, more needs to happen—now. While the G-30's recommendation are a good start, banks are under no obligation to follow them. For investors to become comfortable with the industry's use of derivatives, regulators should require bank financial statements to detail the credit quality of their derivatives. Citi provides details on region and size of loans for its commercial real estate loan portfolio; banks' derivatives portfolio should be described in the same detail.

Bank reports should also explain how they use derivatives to guard against changes in market rates as well

as what degree of rate swings they can tolerate. And dealers should discuss how they manage their derivatives business—what internal controls they use and what steps they take to insure that top management really understands what's going on.

Banks became a lot more forthcoming about their real estate loans after they got into trouble. Why wait? They should come clean about their derivatives operations before big trouble starts. Maybe more disclosure would stop problems from developing in the first place.

Holland is *BUSINESS WEEK's* Money & Banking Editor.

OUT IN THE OPEN

Bank financial statements disclose only limited information on derivatives. Investors and corporate financial officers need more.

CREDIT RISK

Creditworthiness of parties on the other side of swaps and derivatives deals; duration of bank's credit exposures.



DATA: BUSINESS WEEK

MARKET RISK

The extent of market volatility banks are willing to accept. Sudden changes in currency values and interest rates can greatly affect derivatives.

MANAGEMENT

How they operate their derivatives business, including training, controls, and credit standards.

derivatives dealers, says defaults on swaps represent less than 0.5% of the market value of all contracts outstanding. But investors are still in the dark about credit standards used by individual banks and the degree to which they might suffer from rapid changes in market rates. Using an extreme example, David S. Berry, director of research at Keefe, Bruyette & Woods Inc., says: "My sense is, there are some pretty plain-vanilla things people do, but long-term amortizing swaps linking oil prices to gold are different."

The portfolios of some banks are large. Citibank's credit exposure is now at least 86% of its equity, Morgan's is 141%, and Bankers Trust's is 213%.

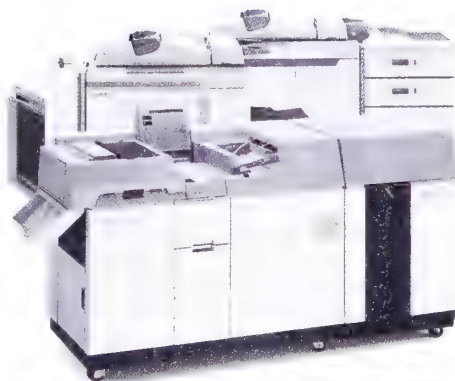


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TWILIGHT OF THE SHORTS

A three-year malaise has forced many to shift strategies

Short-sellers, who bet on stocks declining, are used to getting less respect than Rodney Dangerfield. But short-sellers don't mind being despised—it's losing money they really hate. And for three straight years, many shorts have seen the red ink flow like Niagara. With the stock market hitting all-time highs and small stocks in particular on the march, short-sellers have seen their portfolios decline by an average of 4% through Sept. 30, vs. a 5.3% gain in the Standard & Poor's 500-stock index, with some shorts realizing declines of as much as 42%.

It's not just a temporary setback but rather a sign of extended malaise for an institution—the short-only investment fund—that saw its heyday in the 1980s. And the shorts have acknowledged their woes themselves, with many of them now buying stocks as well as selling them short. What went wrong?

For one thing, a number of short-sellers bet heavily on banks and real estate plays that went due north beginning in 1991. And right now, the upward price momentum of a long list of heavily shorted stocks, most notably Snapple Beverage, Lone Star Steakhouse, Starbucks, and such gambling plays as Casino Magic, is surprisingly strong. "Since the gulf war, the winning strategy has been momentum investing"—a gamble on further price increases, observes Michael Murphy, editor of the *Overpriced Stock Service* newsletter, which recommends short positions. Moreover, the shorts largely ignored the No. 1 investment theme of the 1990s—low interest rates as the prime mover behind stock prices.

FLAWED AND FRAUD. The bleak outlook for the shorts is a far cry from the 1980s, when short-selling came into its own as an investment technique. In theory, at least, shorts can make plenty of money even in a bull market. They target weak or even fraudulent companies, often after backbreaking research. From 1985 through 1990, shorts enjoyed gains of 25% a year, says Harry Strunk, a

Palm Beach (Fla.) investment consultant who tracks short-sellers.

Many shorts have reacted to the bleakness of the bull market by resorting to the old credo "If you can't beat 'em, join 'em." The once-mighty Feshbach brothers of Menlo Park, Calif., took devastating hits in the past three years, driving the \$1 billion fund they had under management to just \$250 million by last summer. Sources in the short biz say the Feshbachs holdings now total a mere \$100 million. Most of that is in a



"hedge fund" private partnership that goes both long and short.

Other shorts have followed suit. Tom and Joe Barton dissolved their partnership with the Feshbachs in July and are now running Dallas-based White Rock Capital, also a hedge fund.

More and more fund managers who still sell short admit that they are "boxing," or playing the same stocks both long and short, to lock in profits and tax positions. And in hedged portfolios, Strunk says players are rarely more than 30%-40% invested in short positions. Thus, even though in mid-October the NASDAQ hit a record level in uncovered short positions, topping 620 million shares, Murphy says that's misleading. Much short-selling now is part

of boxing and other hedging strategy and not a straightforward wager that the stocks will drop. Shorts nowadays are keeping a low profile, with Murphy among the few diehards still willing to list the stocks he loves to hate. Among them are Blockbuster Video, CML Group, Home Depot, Zenith Electronics, Autzone, and Symbol Technologies.

Many shorts are waiting on the sidelines when it comes to gravity-defying plays such as Snapple and Lone Star, believing they're unlikely to move until they make quarterly earnings numbers in a better way. Says Strunk: "There's a lot of interest in the casinos and the restaurant sectors, but shorts are waiting to pull the trigger until they see the whites of [the companies'] eyes."

KEEPING WELL HEDGED. One sophisticated short-seller who is now only 25% short is Clifford W. Henry, a New York-based investment manager. Henry runs about \$50 million, including the \$20 million Worthington Growth hedge fund, a

he's up 20% for the year—mainly snapping up good-quality growth stocks, he says. But he is shorting the computer companies, particularly Dell Computer Corp. and Apple Computer Inc., on the theory that they are ripe for declines caused by "structural business problems." He also believes the bubble in name casinos and restaurants are overvalued.

The problem, alas, is that such sentiments are a bit too widespread. If you want to sell short nowadays, Henry says ruefully, "you better know something somebody else doesn't." That's short-sellers' stock-in-trade—fundamental research. And it ought to pay off for shorts. One of these days.

By Joan O'C. Hamilton in San Francisco

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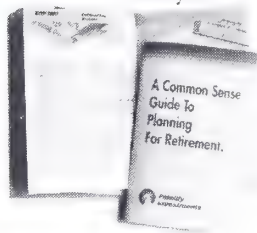
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Annual Return*

16.26%
5-Year Avg.
Annual Return*

20.80%
Life of Fund
Annual Return*
12/31/84-6/30/93

Fidelity Contrafund

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1-Year Avg.
Annual Return*

25.66%
5-Year Avg.
Annual Return*

16.77%
10-Year Avg.
Annual Return*

Fidelity Asset Manager™

17.41%
1-Year Avg.
Annual Return*

14.92%
Life of Fund
Annual Return*
12/28/88-6/30/93

Fidelity Growth & Income Portfolio

20.67%
1-Year Avg.
Annual Return*

17.33%
5-Year Avg.
Annual Return*

19.21%
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Annual Return*
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BY GENE G. MARCIAL

THIS REAL ESTATE PLAY KEEPS HAULING IN THE BRICKS

Real estate is starting to pay off again—in the stock market. After being in the cellar for years, shares of companies linked to real estate are back in vogue. One that's being eyed as a pure play on land and housing is AMREP Corp. The Big Board stock has risen from 5 a share in April to 8½ recently.

This New York-based company develops entire communities, building and selling low-to-medium-priced single-family homes, townhouses, and condominiums. Its model town is Rio Rancho, a 91,000-acre subdivision near Albuquerque, N. M. AMREP constructed some 432 homes last year in Rio Rancho. This year, 540 homes are being built, and 700 more are going up next year. True, AMREP has been chastised periodically by regulators for allegedly aggressive sales practices, but its regulatory problems seem to be a thing of the past.

LOCATION, LOCATION. So far, AMREP has built 14,000 homes in Rio Rancho, priced between \$46,000 and \$180,000. Some custom-designed homes cost as much as \$515,000. The giant semiconductor maker Intel recently announced that it will soon double the size of its \$1 billion plant at Rio Rancho. So a bigger Intel facility could boost even more the demand for housing. AMREP CEO Anthony Gliedman says AMREP has made plans to build an additional 15,000 homes in Rio Rancho.

The company turned a modest profit of 10¢ a share during its first fiscal quarter ended July, 1993, after losing money for the past three years. One portfolio manager, Rudy Mueller at Winchester Group, figures the company will earn 30¢ to 50¢ a share in the year ending Apr. 30, 1994, on revenues of \$110 million. Gliedman says the estimates are in the ballpark but could be too modest if AMREP is able to satisfy the rapidly growing demand for homes in Rio Rancho and other homesites in Denver, Eldorado, N. M. (in Santa Fe), and West Palm Beach, Fla. In Denver alone, Gliedman expects AMREP to build 300 homes a year in the next several years.

One possible kicker to AMREP's stock is the company's profitable Kable News subsidiary, which distributes some 700

AMREP MOVES TO HIGHER GROUND



magazines for 190 publishers in the U.S., Canada, and overseas. Whispers are some 40% of the unit—which one analyst estimates is worth \$45 million—will be spun off. He believes AMREP's stock could double in a year.

WILL UPJOHN GET PICKED UP?

Most major pharmaceutical companies are still in a slump, but not Upjohn. Its shares have made a fast recovery—from 25 in mid-August to 32 in recent days. Yet problems have besieged the company, analysts say. Upjohn has few new products and some of its key drugs face patent expiration. Expenses have also been on the rise. "In sum, Upjohn faces prospects for stagnation over the next few years," asserts Michael Metz, an investment strategist at Oppenheimer.

So why has the stock jumped sharply recently—and why has Metz turned bullish on Upjohn? Whispers are that the company is up for grabs and is being considered for either a buyout or a merger by a large German pharmaceutical company. The talk is that Upjohn is now willing to discuss such a possibility.

Metz says the chances are high that Upjohn may consider such a move. The speculation about a deal started when William Parfet, a great-grandson of Upjohn's principal founder, resigned on Sept. 30 as vice-chairman. Metz notes that Parfet, who remains a board member, commented that Upjohn needs someone who can tackle the mounting challenges facing the compa-

ny and that "it is open to almost any option." Metz and other Upjohn watchers interpret the comment to mean that the options Upjohn will consider include a strategic alliance or merger with another company. A spokesman says it is Upjohn's policy not to comment on merger speculation.

Metz concedes that he isn't a drug analyst. "But the logic of such a move in light of the consolidation in the industry is compelling," says Metz. "The sale of Upjohn makes sense as far as maximizing shareholder value is concerned," he adds.

Upjohn's current market cap is \$5.9 billion. One buyout investor believes that in a deal, the company will be worth \$9.5 billion, or \$55 a share.

HEALING NEWS FROM LIFECELL

As an upstart that's still trying to perfect several products, LifeCell hasn't recorded a single penny in sales. But the company has already enticed several big investors. One of them is Essex Investment Management, with assets of \$2 billion. Essex has gained some publicity late because its president, Joseph McNay, has been chosen by the White House to handle the Clintons' portfolio of about \$1.2 million.

What turned McNay onto LifeCell? The stock was, in fact, brought to McNay's attention by another investor who specializes in technology and biotech stocks and is highly impressed with LifeCell's products-in-the-making. One of them is skin-replacement tissue that LifeCell hopes to market either late this year or early next year. AlloDerm skin replacement, says LifeCell President Paul Frison, eliminates the need for grafting the patient's own skin to the burned areas. Frison says several tests have shown that a third-degree burn grafted with AlloDerm healed well with a smooth skin and reduced contracture of the wound site.

Marc Klee, a portfolio manager at American Fund Advisors in Garden City, N.Y., says the market for human dermis transplants is in the range of \$1 billion to \$2 billion. He thinks LifeCell's stock, which jumped from 7 in April to 11, has yet to reflect the value of AlloDerm and the company's other products in the pipeline. They include the processing and preserving of human-cell products, such as freeze-dried blood for storage. He expects the company to turn profitable by 1995.

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The Boeing Company
Atlanta, GA
Raytheon Company
Boston, MA
Xerox Corporation
Buffalo, NY
Arthur Andersen & Co
Chicago, IL
Texas Instruments Incorporated
Dallas, TX
Stadt Frankfurt A M
Frankfurt, Germany
British Gas PLC
London, U.K
Grumman Corporation
Long Island, NY
Fluor Daniel, Inc
Los Angeles, CA
The Prudential Insurance
Company of America
Morristown, NJ
New York Board of Education
New York, NY

Norsk Hydro B.I.L
Oslo, Norway

U.S. Postal Service
Paramus, NJ

PNC Bank
Philadelphia, PA

The Vanguard Group
Princeton, NJ

Eastman Kodak Company
Rochester, NY

Chevron Corporation
San Francisco, CA

IBM Corporation
Stamford, CT

Martin Marietta Corporation
Syracuse, NY

WOMEN'S DIVISION FINALISTS

The Travelers Insurance
Companies
Albany, NY

The Coca-Cola Company
Atlanta, GA

Reebok International, Ltd
Boston, MA

Eastman Kodak Company
Buffalo, NY

Arthur Andersen & Co
Chicago, IL

Texas Instruments Incorporated
Dallas, TX

Deutsche Bank AG
Frankfurt, Germany

J Sainsbury PLC
London, U K

Chemical Bank
Long Island, NY

Fluor Daniel, Inc
Los Angeles, CA

The Prudential Insurance
Company of America
Morristown, NJ

New York Board of Education
New York, NY

Haukeland Sykehus
Hospital B I L
Oslo, Norway

AT&T Co
Paramus, NJ

Wyeth-Ayerst Laboratories
Philadelphia, PA

Merck & Co., Inc
Princeton, NJ

Eastman Kodak Company
Rochester, NY

IBM Corporation
San Francisco, CA

IBM Corporation
Stamford, CT

Blue Cross Blue Shield of
Central New York
Syracuse, NY

CO-ED DIVISION FINALISTS

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Albany, NY

The Coca-Cola Company
Atlanta, GA

Digital Equipment Corporation
Boston, MA

Westwood-Squibb
Pharmaceuticals Inc
Buffalo, NY

The Northern Trust Company
Chicago, IL

NationsBank
Dallas, TX

Stadt Frankfurt A M
Frankfurt, Germany

National Westminster Bank PLC
London, U K

BOCES 3
Long Island, NY

Walt Disney Imagineering
Los Angeles, CA

Merck & Co., Inc.
Morristown, NJ

Prudential Securities Inc
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CHEMICAL

THE SHOOTING WAR IN SOFTWARE

Rampant price-cutting batters profits—and may bring a shakeout

When Borland International Inc. announced a new version of its spreadsheet program, Quattro Pro, for the cut-rate price of \$50 in August, competitors were not impressed. At a conference a few weeks later, an audience of industry executives was asked whether they thought the move was brilliant or desperate. The tally: 82% said desperate.

If so, much of the software industry seems to be approaching desperation. The price war that has infected the PC hardware business for the past few years is now solidly entrenched in software as well. Programs that used to sell for \$300 are now available for \$100. The Software Publishers Assn. estimates shipments grew by more than

categories, often sparked by a competitor thirsting for market share or entering a new area. Microsoft Corp. dove into data bases by offering its \$495 Access package for \$99 during a three-month promotion—and sold an astounding 750,000 copies. Now, Computer Associates International Inc. has gone Microsoft one better: It's literally giving away more than a million packages to break into new markets (page 88).

It all adds up to a dismal spiral. Promotional prices tend to become permanent—or close to it. That's because they're followed by so-called competitive upgrades, discounts offered to owners of competing products. In stores, however, buyers rarely have to prove

tember quarter, its revenues rose 20% to \$983 million, and earnings were up just 14%, to \$239 million. Worse, revenues actually declined 5% from the previous quarter, and earnings were down 10%. Net margins dropped 1.2 points to 24.3%—still a level of profitability rivals would kill for. Says Chairman William H. Gates III: "Profits will be fantastic, as opposed to wildly fantastic."

For many Microsoft rivals, profits are simply vanishing. Borland's sank 48% to \$2.8 million, on revenues down 16% to \$107 million. Earnings have also been dismal this year for Software Publisher and Micrografx. And analysts believe that an initial public offering by WordPerfect Corp. is being postponed because of depressed earnings.

LONG HAUL. Software retailers are also feeling the pinch: Egghead Software Inc. lost \$1.7 million for the quarter ended July 24, as revenues rose 8%, to \$2 million. The villain: price-cutting, says Peter A. Janssen, vice-president for merchandising and advertising. "I don't see that changing at all."

As with hardware, a commodity mentality is taking hold. "Feature-wise, all the different vendors are hitting 85% of our requirements," says Steven D. Birnfeld, who buys software for Booz, Allen & Hamilton Inc. As a result, buyers are shopping for

price. And increasingly, that means buying suites, which means the more and more of the market going to the two big suite sellers, Microsoft and Lotus Development Corp. "It's coming down to Coke and Pepsi," says Goldman Sachs & Co. analyst Rick Sherlund.

Everybody else

must scramble. No matter how feature-crammed their programs, software makers must sell them at prices that are attractive to suite shoppers. Take WordPerfect's latest program, a sophisticated word-processing package that requires 32 megabytes of disk storage and can do all sorts of desktop-publishing work. It debuted in August with a list price of \$495. Now, just two months later, you can buy it for less than \$100 in retail stores.

That trend could soon lead to a shakeout and consolidation. Software Publishers

THE INCREDIBLE SHRINKING PRICE TAG

Prices for packages such as word processors and data-base programs have fallen tremendously. Here's the tale of Quattro Pro:

QUATTRO PRO 2.0 RELEASE DATE: SEPT. 1990  LIST PRICE \$495 STREET PRICE \$99.95 *FOR THOSE WHO OWNED COMPETING PRODUCTS	QUATTRO PRO 4.0 RELEASE DATE: MAR. 1992  LIST PRICE \$495 STREET PRICE \$99.95 *BECAME LIST PRICE ON JAN. 1993	QUATTRO PRO 5.0 RELEASE DATE: SEPT. 1993  LIST PRICE \$99.95 STREET PRICE \$49.95 *UNDER CURRENT PLANS GOOD UNTIL JAN. 1994
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25% in the second quarter, but revenues were up just 14%. That's worse than the previous quarter, when shipments grew 26% and revenue 20%.

SUITE SUCCESS. There are lots of reasons for the price plunge. One is the declining price of PC hardware—off 32% last year, according to International Data Corp. It's hard to sell a \$500 word-processing program for a \$1,000 computer. Then there are suites: groups of programs sold in bundles that list for 50% off the retail price of the individual packages—and retail for 45% to 70% off that. Finally, there are the price wars in various

that they own the competing product. The \$100 list price that Borland now stamps on its boxes, for example, was the special promotional price it offered to users of Lotus 1-2-3 a few years back. And even though the promotion for Access has expired, the price has only inched up, to \$129. "I don't think software prices are going to go back up," says Susan L. Salay, senior director of marketing for Ingram Micro Inc., a computer wholesaler.

The effects of the price crunch can be seen in some of the latest earnings statements—even Microsoft's. In the Sep-

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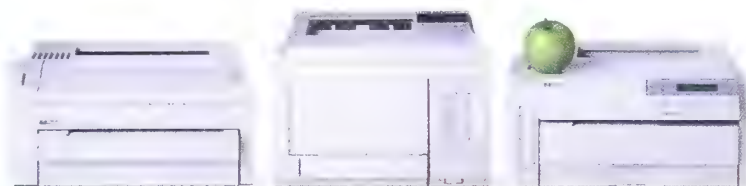
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ing laid off 140 people last summer—21% of its work force. That follows layoffs of 120 workers last year. Almost everybody—including Microsoft—is cutting back on expenses or expansion plans.

And there are persistent rumors of pending mergers, including one between Borland and WordPerfect. Both companies deny such discussions. "I would expect the single-product companies to be acquired or merge over time, or else they'll lag and won't be players anymore," says Betty J. Lyter, an analyst with Montgomery Securities Inc.

Of course, there is a bright side to

discount pricing. "There's a fundamental elasticity of demand," says Richard Rabins, chief executive of Alpha Software Corp., a maker of \$50 and \$60 data-base and graphics programs. "You should be able to sell more software to more people if the price is lower." And once they pare costs, if the volume materializes, software makers say profits will rebound. Software makers Aldus Corp. and Synmantec Inc., for example, both reported good results in the September quarter.

Indeed, Borland Chief Executive Philippe Kahn gloats that he sold 500,000 copies of Quattro Pro 5.0 in just 45 days,

a goal he hadn't expected to reach in five months. "We've never seen anything like this," says Kahn. The high volumes, he adds, reduce his cost of materials from about \$13 per package to about \$9.

And, he insists, the low price will lure buyers from the suites. After explaining this strategy at the Age conference, at least a few members of the audience were converted: A second poll cut the "desperate" votes to 48. Not exactly a ringing endorsement, perhaps a first small sign of hope.

By Richard Brandt in San Francisco with Gary McWilliams in Boston

BELOW BARGAIN BASEMENT: SOFTWARE FREEBIES

When software maker Computer Associates International Inc. decided to jump into the market for personal-finance software last year, it knew it had an uphill battle. For a decade, owners of personal computers have been balancing their budgets, tracking investments, and paying bills with programs such as Managing Your Money or Quicken. And the Islandia (N.Y.) maker of mainframe programs was hardly a household word. How to overcome these hurdles? Make like a consumer-goods company and give the product away—like a free sample of toothpaste. Then, hope customers will come back and pay for more.

That's exactly what CA has done. When it introduced Simply Money in June, it promised to give the program away to the first 1 million customers who agreed to pay a \$6.95 shipping charge. And while Marc Sokol, vice-president for product strategy, says the company long ago surpassed the million mark, the company is extending the offer because of the high demand. "We're still doing several thousand a day," he says.

IMITATORS. Will the giveaway program work? That won't be clear until CA goes back to selling upgrades and other products. But the strategy is already spawning imitators. Small companies such as MicroFrontier Inc. in Des Moines and Central Computer Products in Fillmore, Calif., have started similar promotions. In three years, MicroFrontier's Color It! imaging soft-

ware has won many awards from trade magazines, yet the company claims only about 50,000 to 60,000 customers. "I would be happy to do a million [orders] in three months," says MicroFrontier President Keith P. Woodard.

So far, the big software makers are skeptical of the approach. "Name one company that has survived on giving away products," says Scott D. Cook, co-founder and president of Intuit Inc., maker of the market leader, Quicken. And he questions use of consumer-

ket research for InfoCorp. "This was good way for them to do it."

Now, the company is ready for another assault. On Oct. 27, CA plans to introduce the next product in its consumer-software line. Called Simply Tax, the program will offer expert advice and planning tips for preparing next year's complicated income-tax return. Like its sister program, Simply Money, it will be "given away" for a shipping and-handling charge of \$9.95. It will also be available through stores such as Office Depot Inc. and Staples Inc., at a price set by the retailers.

BACK FOR MORE? The goal, says Sokol, is to build a bank of subscribers to an expanding Simply line of software products. That's not a bad idea, since 20% of the revenue in personal-finance software comes from repeat customers, says Le Tocq.

But will they line up to buy? So far, it's hard to tell. Tom Testi, an Oklahoma City software engineer who gave up Quicken after trying the program, says he would probably buy any upgrade. "Paying for the upgrade will be worth it if the features are there," he says. CA plans to start selling a Simply Money upgrade in 1994 for an as yet undetermined price.

On the other hand, lots of consumers may hold out for more freebies. Gail Berniato, a teacher in Tollara, Conn., is one. She says she would pay for a Simply Money upgrade "only if they offer it real cheap."

By Paul M. Eng in New York



FROM COMPUTER ASSOCIATES: PAY THE SHIPPING, AND IT'S YOURS

goods tactics in software: "Shampoo you can change, but once you get data into software, it's hell to change."

Even by Sokol's estimates, only 50% of those who ordered the program are still using it regularly. While that means only 500,000 customers compared with Intuit's 4.8 million, the offer has pushed CA past Microsoft, which has an estimated 300,000 customers for its Money program. "CA needed a way to get into the desktop market," says Chris Le Tocq, a director of mar-

capability: executive programs

FINANCIAL EVOLUTION



Illustration by Raul Colon. As seen in BusinessWeek, August 9, 1993 Issue.

The 1994 Business Week Forum of Chief Financial Officers

Making Sense Out of Change

Date: April 14-16, 1994

Place: The Ritz Carlton, Palm Beach, Florida

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BusinessWeek

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NCR, PHONE HOME

Two years after the takeover, parent AT&T wants results

At the time, it was hailed as a bold and brilliant stroke: After eight years of false starts and \$2 billion in losses in computers, American Telephone & Telegraph Co. made itself a player in a crucial business with the \$7.5 billion hostile takeover of computer maker NCR Corp. in 1991. And none of the computer companies that AT&T could have bought had a more global sales organization, more modern product line, or cleaner balance sheet than did the Dayton-based NCR. Sure, AT&T paid 20% more than the market price of NCR before the takeover began, but mostly Chairman Robert E. Allen

was applauded for acting so decisively.

Today, the glow surrounding the NCR deal is all but gone. And the independence NCR was given as a newcomer to the AT&T family is no more. After the merger, AT&T let NCR management choose which product lines—and which employees of AT&T's computer division—to keep. And AT&T management was rewarded with its first-ever profit in computers: \$288 million on revenues of \$7.1 billion last year.

That was then. Now, NCR is feeling the heat from AT&T brass in Basking Ridge, N. J. One of the things that made NCR a standout two years ago was its

early commitment to low-cost, microprocessor-based computing. Yet NCR has fully skirted the economic forces that are rocking IBM and Digital Equipment Corp., among others. Despite its early start in low-cost "open systems," neither NCR's cost structure nor its market strength has kept pace with the market's wrenching changes.

"NCR's in a very tough industry right now," says Blake Bath, an analyst at Sanford C. Bernstein & Co. "Nobody's making a lot of money in computers." Indeed, in the third quarter ended September 30, NCR's revenues were down 2% from a year earlier, and a \$23 million restructuring charge contributed to a \$49 million operating loss.

YOUNG TURKS. With competitors catching up with NCR in technology, prices plummeting in PCs, and business softening in Europe and Japan, Allen installed troubleshooter Jerral Stead as NCR chairman and chief executive officer in May, replacing longtime NCR executive Gilbert P. Williamson. "They have been on a path to meet our longer-term expectations at the acceleration rate we would like to see," says Allen. "Jerral is going to make that difference." A telltale sign of the times: In the next few weeks, the NCR name may disappear.

Stead became a star at AT&T by turning around its private branch exchange (PBX) business, and once again he has work cut out for him. Few of the "synergies" from combining computers and communications have materialized. Opportunities in multimedia and vast networks for processing financial and retail transactions remain more dream than reality. Allen says some NCR executives "were inclined to take advantage of their independence and not look for obvious synergies."

"The real paybacks are in the future," concedes Stead. But not the distant future, he insists. He wasted little time before attacking bureaucracy and shaking up NCR's staid, inbred culture. An early retirement program is expected to trim NCR's work force of 50,000 by as much as 15% by 1995. Allen says more cuts are likely. Meanwhile, a flatter organization has elevated a new crop of younger top executives, too.

Combining the spirited, can-do do-

WHAT AT&T'S NEW COMPUTER CHIEF IS UP TO

REVAMPING TOP MANAGEMENT

Old guard is out, replaced by younger executives from within NCR and from parent AT&T

WORKING MORE CLOSELY WITH AT&T

Joint research with Bell Labs; emphasis on deals involving networking and computers; NCR name slated to disappear soon

SMASHING BUREAUCRACY

Hundreds of "customer-focused" marketing teams are being formed to make decisions fast

EMPHASIZING HIGH-END SYSTEMS

NCR's "alternative mainframes," built from speedy microprocessors, are its strongest product line, especially against IBM

Your symptoms are bothering you, but you're still waiting to see your doctor about your enlarged prostate. Maybe it's time to stop waiting.

**Ask your doctor about
the prescription medicine PROSCAR.[®]**
(FINASTERIDE)

**Finally, a medicine
for the treatment
of symptomatic benign
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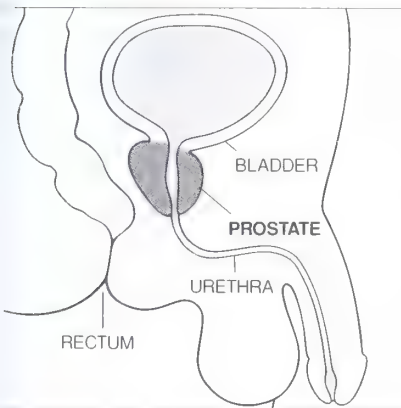
You can't make it till halftime anymore without having to go to the bathroom. You're getting up several times a night to urinate. It's beginning to bother you, but up to now, you've lived with it. The question is, would you?

Until recently, there wasn't a medicine that could help the condition known as symptomatic benign prostate enlargement or BPH. But now there is PROSCAR, the first oral prescription medicine that can actually shrink an enlarged prostate.

However, it is important to know the following: PROSCAR doesn't work for everyone. Even though the prostate shrinks, you may not see an improvement in urinary flow or symptoms. And you may need to take PROSCAR for months or more to see whether it helps you.

How PROSCAR can shrink an enlarged prostate

As a man ages, a key hormone can help cause the prostate to grow.



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.



PROSCAR actually blocks the production of this hormone, so it helps shrink the prostate to a smaller size in many men. As a result, some men treated with PROSCAR experience an increased urinary flow and an improvement in urinary symptoms.

**Why you should see your
doctor soon**

The problem will probably not get better by itself. In many cases, the prostate continues to enlarge and the symptoms may get worse. So if your urinary symptoms are bothering you, consult your family doctor or a urologist and find out if PROSCAR is an appropriate treatment for you. It is also important to have regular checkups. While benign prostate enlargement is not cancer and does not lead to cancer,

the two conditions can exist at the same time.

Remember, only a doctor can evaluate your symptoms and their possible causes. So don't wait any longer. You may find out that your enlarged prostate can be made into a smaller problem.

For a free, informative booklet, "Every man should know about his prostate," call 1-800-635-4452 today.

TABLETS
PROSCAR[®] 5mg
(FINASTERIDE)

PATIENT INFORMATION ABOUT PROSCAR® (Prah-s-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See "What PROSCAR does" below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

• **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.

• **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.

•A warning about PROSCAR and pregnancy.

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.



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ery of a motivational speaker with the cold eye of a financial executive, Stead has made a special effort to defuse internal rivalries and get various NCR factions to work together. He calls it "putting the moose on the table"—a motto now emblazoned on T-shirts for all to wear. "He's got a great record," says William N. Deatherage, an analyst at S. G. Warburg Securities. "He's probably the ideal executive to put there."

Stead's immediate goal is to get NCR profitable and growing again. That means invigorating NCR's creaky marketing efforts. Also in need of attention is the company's core, midrange computer business, which has lost its technical edge.

"JUICE WITH JERRE." Stead's first move was a worldwide series of "Juice with Jerre" meetings with employees. He also has met with more than 500 customers, he says, and handed out his home phone number to thousands more at various group meetings. To make NCR more agile, Stead has begun creating some 70 customer-focus teams around the world. Combining marketing, sales, technical and other talents, they're dedicated to doing whatever it takes to, in Stead's words, "delight" customers.

Meanwhile, Stead is investing heavily where NCR holds its strongest technical advantage—a new breed of large-scale computers that can do the work of 10 mainframes for a third or less of the cost. Through its acquisition of Teradata, an early maker of "massively parallel" computers employing scores of microprocessors, NCR has pulled well ahead of Big Blue in replacing conventional mainframes. Massively parallel computers are especially good at sifting through vast data bases, processing volumes of retail transactions and, AT&T expects, even delivering video programming to homes. NCR and Teradata have installed more than 400 such systems, giving NCR an 80% market share, vs. 0% for IBM.

As early as Nov. 9, however, IBM was expected to strike back with the first of a series of planned parallel-process add-ons for its mainframes. Pricing and performance details remain sketchy, but no one is discounting the formidable marketing power Big Blue can bring to bear in defense of its core franchise.

As for AT&T, it remains convinced that buying NCR was the right thing to do. "I don't have concerns about the strategic decision we made," says Chairman Allen. "Everything considered, given the timing, I'd say it has met expectations in the short term." Now Stead is there to make sure the long-term payoff materializes, too.

By John W. Verity, with Bart Ziegler in New York

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THE SUN SHINES BRIGHTER ON ALTERNATIVE ENERGY

Nonfossil sources of power are back—and getting more efficient

In the late 1970s, alternative energy was nearly as popular in California as alternative lifestyles. Fertilized by state and federal tax incentives, windmills sprouted east of San Francisco by the thousand. Patches of the Mojave Desert were carpeted with panels that collected the sun's energy. But when the tax breaks dried up, so did the projects. Luz International Ltd., a top maker of solar gear, went bankrupt.

The times are changing, however. Bolstered by improved technology and revived support from Washington, renewable energy is making a comeback—and not just out West. On Aug. 6, some 68 utilities across the country agreed to buy as much as \$500 million worth of solar panels over the next five years to generate electricity. Two weeks later, utilities in Maine, Texas, and Vermont signed on for Energy Dept. tests of new, more efficient wind turbines. And in October, the industry-funded Utility Renewable Resources Assn. decided to refocus exclusively on finding clean ways to burn biomass—wood and other plant material. "We're seeing a revolution in the way we create and use power,"

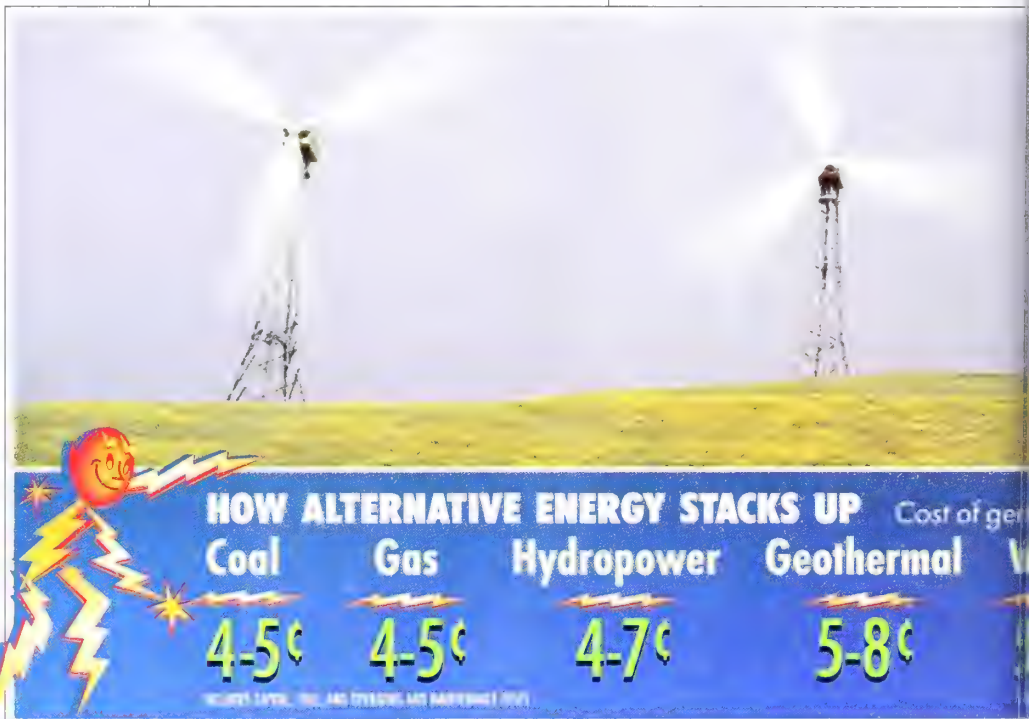
says Frank M. Stewart Jr., acting assistant energy secretary for efficiency and renewable energy. Already, Southern California Edison Co., a pioneer in such efforts, gets 13% of its electricity from these renewable sources vs. 1% in 1985. **"TRUCKING ALONG."** Most of the renewables are still infant technologies with big cost disadvantages (table). So they won't displace fossil fuels right away, if ever. Currently, nearly 55% of the nation's electricity comes from coal, 22% from nuclear reactors, 13% from oil and natural gas, and about 9% from hydro generators. Wind and solar power account for less than 1% of the total, a

share that's expected to rise only slowly.

Still, after being slashed by 76% during the Reagan era, federal spending for research on renewable energy will climb 36% in fiscal 1994, to \$347 million. If this money is used well, says Robert L. San Martin, deputy assistant secretary for utility technologies at the Energy Dept., perhaps 5% of U.S. electricity could come from wind and sun within 20 years. Well before then,

ing to the Worldwatch Institute, a nonprofit research body in Washington. The U.S. generates most of this—65%. But maybe not for long: Worldwatch experts say that by 2005 the European Community aims to be generating 8,000 Mw of electricity from wind, or 1% of its total. **FASTER SPIN.** Those windmills will be more sophisticated than the giant propellers that covered California's Altamont Pass in the 1980s to catch the powerful Pacific breezes. None of those early models could generate electricity for less than 7¢ per kilowatt hour, 50% more than from coal or nuclear. But in late 1991, a Kenetech subsidiary, U.S. Windpower Inc., unveiled a better turbine—the 33M-VS. The company is now selling electricity from this machine for as little as 5¢ per kwh.

To finance production of the new turbine, Kenetech went public in September, raising \$92 million. Alderson says



the market opportunities could be tantalizing. "If we supplied just 1% of the world's electricity by the end of the century, we'd be trucking along at \$3 billion to \$4 billion [in sales] a year," says Gerald R. Alderson, president and CEO of Kenetech Inc. in San Francisco, the nation's largest wind-power company.

Wind power, in fact, "is on the doorstep of commercial reality," says Edgar DeMeo, manager of the solar-power program at the utility-funded Electric Power Research Institute in Palo Alto, Calif. Since 1981, commercial power generated from wind worldwide has leaped from 15 megawatts to 2,652 megawatts, accord-

ing to the company has \$600 million in firm orders from such utilities as New England Electric System, which will buy roughly 20 Mw of wind power by 1995. Last April, meanwhile, U.S. Windpower formed a partnership with a Ukrainian utility called Krimenergo to build a 50-Mw wind farm on the Crimean peninsula in hopes of hastening the closure of nuclear plants at Chernobyl. The company is also negotiating with the European Utility Consortium to provide 150 Mw of power—enough to run about 50,000 homes—by 1999.

Sitting atop a 90-foot tower, its 100-foot-long blades facing into the breeze,

33M-VS looks like any other wind turbine. But it isn't. Until it came along, turbines spun at a constant velocity, no matter how hard the wind blew. This was necessary to generate alternating current with a frequency of 60 hertz, as used in the U.S. By contrast, the 33M-VS tech machine accelerates or slows its rotation as wind speed changes, and a computerized converter produces a steady 60-hertz current. It thus captures more energy as the wind blows harder, and it can take strong gusts without breaking like earlier models did.

Wind Corp. in San Rafael, Calif., is now well, too, with a new turbine that produces electricity for 5.3¢ per kwh. The blades spin at a constant speed, but the blade design allows the turbine to produce extra power from strong winds. Wind has won its first order for the turbines, from Washington state's Puget Sound Power Administration, which will build a 91-unit wind farm by 1995. Solar power is about a decade behind, experts say, in the race to be-

tries, and International Solar Electric Technologies are monitoring the developments in thin-film technology with an eye to making solar cells for utilities.

SALTING IT AWAY. SoCal Edison is also working on solar advances. In partnership with Texas Instruments Inc., the utility is developing sheets of tiny photovoltaic cells made of silicon. These would be built into roof shingles or other construction materials to generate electricity for homes. The cells now operate at 8.5% efficiency and produce electricity at 16¢ to 18¢ per kwh. Joseph N. Reeves, research manager at SoCal Edison, says the companies hope to hit 9% efficiency before deciding early next year whether to commercialize the cells. Despite the high cost, Reeves says, this technology makes sense in some situations. For instance, extending an electrical distribution line can cost \$20,000 to \$50,000 a mile. "If you pay \$10,000 or \$20,000 per kilowatt for a photovoltaic system, that still might be cheaper [in remote areas]," says Reeves.

SoCal Edison is also leading a 12-member consortium in a \$48.5 million project called Solar Two, which the participants hope will generate as much as 35% more electricity than an earlier project did. Solar Two will use mirrors to concentrate the sun's rays, then store the resulting heat in molten salt to be drawn out later to generate electricity at night or on cloudy days. Salt, it turns out, holds heat much longer than did oil, the storage medium in Solar One. The new project would let utilities use solar energy as more than an intermittent power source, says Reeves, and SoCal hopes to be using it by 2000.

The push for alternative energy sources could also lead to more burning of

crops or trees grown especially for that purpose. Some 0.5% of U.S. electricity is now produced this way, a share that is likely to double by 2010. Georgia Power Co. in Atlanta, for instance, burns as much as 2,000 tons of peanut shells and scrap wood a month in place of coal. Using wood is 30% cheaper and reduces harmful emissions, says Dwight H. Evans, executive vice-president.

True, alternative energy is still only peanuts in the nation's energy mix. But with more money from Washington and more support from adventurous utilities, the idea may go further this time.

By Mary Beth Regan in Washington

**SPINNING CASH:
POWER AT 5¢ PER KWH
FROM ALTAMONT PASS**



commercially feasible. Still, scientists are steadily improving the efficient solar cells, a key to getting prices down. In July, scientists at the National Renewable Energy Laboratory set efficiency records for two technologies. Thin-film cells made of copper indium selenide and gallium converted 15.5% of light into electricity, surpassing the 14% mark for the first time. Tandem cells made of gallium indium phosphide and gallium arsenide, which soak up different parts of the light spectrum, reached 29.5% efficiency, up from 27.6%. Energy Dept. scientists say Martin Marietta, Solarex, Siemens Solar Indus-

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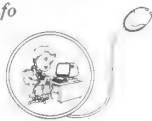
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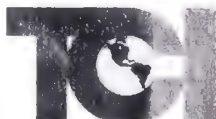
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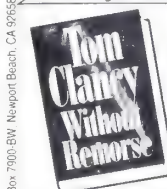
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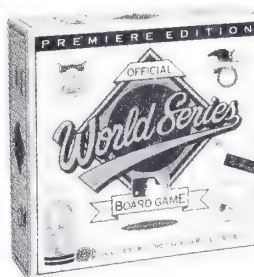
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Developments to Watch

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THE MOON IS MADE OF ... AN UNLIMITED ENERGY SOURCE?



The isotope known as helium 3 would be an ideal fuel for nuclear fusion, a potentially unlimited source of clean energy. Unfortunately, the isotope's concentration in naturally occurring helium is just one part per 100 million—too sparse to harvest. So Japan's Ministry of International Trade & Industry is eyeing the moon, which scientists believe contains

rare isotope in abundance. The sizable challenge: to reach moon, harvest the He^3 , and bring it home.

To help brainstorm a way to do all this, MITI has enlisted Kawasaki Heavy Industries, Nissan, Hitachi, and 17 other companies. But even with corporate support, Japan will probably need to stand on NASA's shoulders to master the secrets of space travel, lunar bases, transport vehicles, and techniques to separate He^3 from lunar sand. Right now, says an MITI official, "this is barely even a feasibility study." MITI won't comment on the cost, although such projects typically run at \$250 million. If all goes well, MITI says the first moon landings could occur in 2020.

Y, CAR THIEVES, Y TO DRIVE THIS ONE OFF

Most automotive antitheft devices have a fatal flaw. Hardened-steel braces can be defeated by cutting through the locking wheels they're attached to. And thieves can get past the electronic systems, which use radio frequencies to lock and unlock cars, by lurking nearby, recording the signals, and playing them back after the owner walks away.

A 33-year-old French design engineer, Michel Malvy, is latest to enlist in the antitheft forces. His Malvy Lock disengages the steering wheel from the steering column so it is freely, making it impossible to drive the car. The wheel is engaged by inserting an ignition key that comes in 4 billion possible variations. The mechanism is enclosed in an arm-plated box between the wheel and steering column. Starting early next year, Malvy Technology Inc. in Oklahoma City expects to sell the lock and a new steering wheel for about \$0 to \$800, says Chief Executive J. Stephen Smith. To fit the lock to the existing steering column would cost about \$0 more.

COOLER WAY TO MELT JUNKED TIRES

The 3 billion discarded tires in the U.S. are a blight on the landscape—and a waste of natural resources. Titan Technologies Inc. in Albuquerque says a secret brew of catalysts heated to 450F breaks down tires into their components—oil, bon black, and steel—which can then be reused. Titan's other processes require temperatures of 1,000F or higher to create more pollution, and produce fewer useful byprod-

ucts. Another Titan blend of catalysts breaks down plastics and composites into simple hydrocarbons for reuse as chemicals and fuel. In tests, Titan has broken down plastic beads that the U.S. Air Force uses to blast paint off aircraft, says 1st Lieutenant Phillip P. Brown, an environmental research engineer at Tyndall Air Force Base in Panama City, Fla.

Titan's tire technology, acquired from inventor Floyd Wallace in 1990, is turning heads. Geo Technologies Corp. in Orange, Calif., which has worldwide marketing rights, has sold systems to two Korean companies. They are nearing completion of tire-recycling plants based on Titan's design, says Geo Vice-President John H. Park.

NASA PLANS A 'LITTLE SILICON VALLEY' IN SPACE

Semiconductor materials may soon be made in space, if NASA's plans work out. The next Space Shuttle Discovery mission, set for Jan. 21, will launch and retrieve a small orbiting factory, called the Wake Shield Facility, that's designed to produce near-perfect gallium arsenide wafers. Later missions may make other thin crystalline films for lasers or superfast computer circuits. Gallium arsenide wafers can be made on earth by laying down ultrathin layers of molecules in a vacuum. But even the best earthly vacuums contain atoms that contaminate crystals and slow electronic signals inside finished chips.

Since even space isn't a perfect vacuum, crystals will be grown behind a 12-foot-wide shield in a process that's controlled by computer from earth. The stainless-steel shield will block unwanted atoms, creating in its wake a vacuum 10,000 times purer than anything on earth. The space-grown crystals could be used to make computer chips that are up to eight times as fast as those made from silicon—and three times as fast as today's gallium arsenide chips, says Alex Ignatiev, director of the Space Vacuum Epitaxy Center at the University of Houston. It designed and built the orbiting minifactory with Space Industries Inc. in League City, Tex.

MOUSE SMELLS MOUSE, LEAVES HOUSE

Researchers at Indiana University have a new weapon against household mice: the smell of other mice. In nature, male mice with high levels of testosterone mark their territory by secreting potent scented oil in their urine. That scares off other mice. Indiana scientists have been able to isolate and synthetically reproduce the oil in a form that scares off mice but escapes detection by human noses.

Canisters or pest strips containing the substance should be strong enough to keep mice away from closets, basements, and warehouses. Research Corporation Technologies, a technology-transfer company in Tucson, holds a patent for the mouse repellent. RCT scientist John E. Creange says the substance needs to undergo more testing, but at least one company, Reliable Biopharmaceutical Corp. in St. Louis, is interested in producing it commercially.





SHOULD BUSINESS BE AFRAID OF JURIES?

The stereotype of out-of-control Robin Hoods may be outdated

What do an investment bank, an auto maker, and a law firm have in common? The answer: They all suffer from some strain of juryphobia.

Salomon Brothers Inc. asks business partners to waive a jury trial should a disagreement arise—preferring instead to face only a judge. General Motors Corp. settles disputes with its Saturn dealers before an arbitration panel made up of Saturn employees and retailers. Its decisions are binding. And the New York law firm of Paul, Weiss, Rifkind, Wharton & Garrison paid \$45 million in September to settle a civil case with the government—even though the firm's lawyer contends his client would have fought the charges had the government agreed to drop its demand for a jury trial. These companies and many others are working hard to sidestep juries—a legal vehicle considered by many to be too costly, too time-consuming, and just too risky. "It's like playing with loaded dice, and you're on the wrong side," says Jonathan A. Marshall, a New York patent attorney.

Much of the uneasiness has been fueled by megaverdicts and the publicity that follows. Remember the \$1.2 billion award Litton Industries Inc. won in September from Honeywell Inc. in a pat-

ent case? Or when GM was hit in February with a \$105 million verdict awarded to the parents of a teenager killed in one of its pickup trucks—of which \$101 million was in punitive damages? Or the granddaddy of them all, the \$10.5 billion awarded to Pennzoil Co. in 1985 in its fight with Texaco Inc.? "The jury is probably the No. 1 factor that swings all of the parties to look at alternative means of settling disputes," says Julie A. Welborn, litigation management director at Liberty Mutual Insurance Co.

OVERBLOWN? Corporate fears are explained by one viewpoint perennial in the business world: Juries are sympathetic to plaintiffs, and they distrust defendants. They maintain that jury trials too often are used to force monied defendants to redistribute the wealth. "A lot of people feel that if you can't win the lottery, maybe you can win a good lawsuit," observes Donald Vinson, chairman of DecisionQuest, a consulting firm that helps lawyers analyze jury pools.

But Corporate America's fear of juries may be overblown. Three independent studies of jury verdicts and jurors' attitudes completed within the last year suggest that the litigation explosion is on the wane. In fact, the studies show that plaintiffs are actually losing a greater proportion of cases today than they have

in many years. Plaintiffs won 63% of personal injury claims against businesses in 1988; in 1992, they won only 54% of them, according to a study to be released in November by Jury Verdict Publications (chart). In every category of personal injury litigation over the past five years, except those involving automobile accidents, the percentage of plaintiffs' victories have decreased.

Jury Verdict's study, which looks at everything from product liability to sexual harassment in the workplace, also refutes the popularly held notion that juries' monetary awards are increasingly out of control. On the contrary, awards have remained relatively constant in the past five years. "The notion that juries are wild, unpredictable and capricious is just not true," says Marc S. Galanter, a professor at the University of Wisconsin Law School. "People have very distorted views about what juries do."

In the area of product liability, the most controversial and high-profile legal arena, the data are even more startling. Defendants last year won 57% of those cases brought by individuals, compared with only 46% in 1989, the study shows. The number of product-liability suits filed is also down. Excluding asbestos matters, cases filed in federal court dropped to their 1985 level in 1991 with 12,413 filings, down from a high of 18,679, another study reveals. For many plaintiffs' lawyers, the news on juries merely supports what they have known all along. "Juries don't give away the kitchen sink," says Lee S. Kreindler, New York plaintiff's lawyer. "Plaintiff bias has been overstated."

The apparent trend away from sky-high verdicts and escalating litigation is so palpable that even tort reformers whose arguments are undercut by ex-

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of sane juries, are acknowledging the fact, they are taking credit for it, going to their campaigns to educate the public about the economic consequences of excessive verdicts. But Wil-

D. Fay, executive director of the Product Liability Coordinating Committee, cautions his allies from getting too

ed. "The trend we see is always reverse the other way," he says. "Now, it appears jurors are indeed leaning more on the financial implications of their decisions. Valerie Hans, a professor of psychology at the University of Delaware, viewed hundreds of cases and concluded they are generally business. Hans says jurors are very concerned about what role verdicts may have had in contributing to their

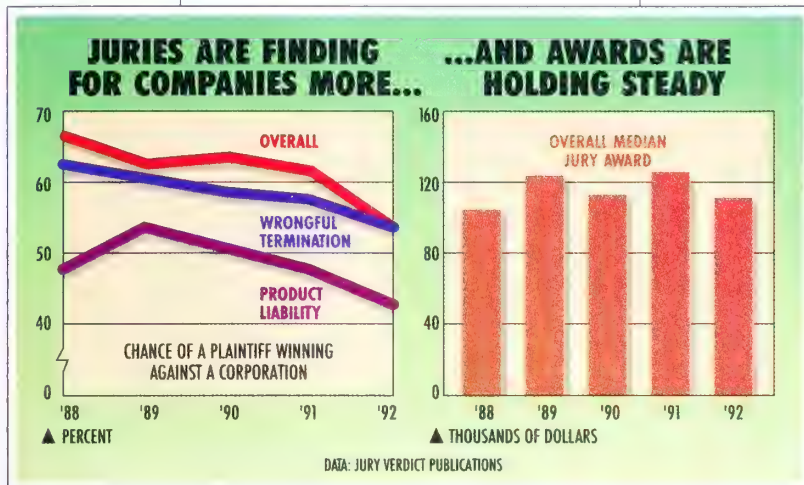
ies as well as the economic impact verdicts on the marketplace and their wallets. "Jurors are not Robin Hood," she says. "Americans generally believe that what's good for business is good for the country."

A third study dispels yet another widely held view—that judges are more pro-defendant than juries. A Cornell Law School study of verdicts in federal

courts reveals that plaintiffs in product-liability cases win 48% of the time before judges, compared to only 28% with juries. The evidence is much the same in medical malpractice suits, with judges ruling half the time for plaintiffs, while juries find liability in only 29% of the cases. The study finds little difference

unfair—juries are. They don't take into account suits that may be frivolous but are settled anyway by defendants to avoid costly and protracted litigation. They don't reflect the diverse attitudes of jurors from different geographical areas. And, as with any disputed theory, studies can be found to show that business is in as much legal

trouble as ever. Vinson, the jury consultant, says his research indicates that more than half of all jurors hearing product-liability cases come into court believing manufacturers are guilty of wrongdoing. In employment litigation, the presumption of guilt is about 70%. "Having been in the line of fire, working with real litigants on real cases, I can tell you that Corporate America has a lot to be worried



between the outcomes of other types of cases tried before judges and juries. "I attribute the results to the fact that plaintiffs' lawyers have too much faith in juries and defendants' lawyers have too much fear," says Theodore Eisenberg, a Cornell Law School professor who co-wrote the study.

Still, no academic endeavor can provide the definitive word on how fair—or

about," Vinson says.

Maybe so. But if these studies are any indication, businesses are becoming more adept at overcoming many of the innate biases of juries. That's one sign that the system, flawed though it may be, is working—welcome news for anyone heading to court, no matter which side they're on.

By Linda Himelstein in New York

JAPAN IN THE DOCK: BEWARE OF THE BASHERS

he one time U.S. companies don't mind a trip to the courthouse so much is when their adversary is Japanese—especially Japanese. The \$96 million verdict against Minolta Camera last year in a patent dispute with Raytheon Inc. is often cited as an example of how powerful the home-court advantage can be. "Some of my clients worried that the jury's emotional reactions might lead to excessively high penalties," says Toshiaki Hasegawa, a Tokyo-based attorney specializing in patent suits.

These worries may be somewhat justified. Litigation Sciences Inc., a consulting firm, has developed a special scale for its Japanese clients that tracks anti-Japanese bias among American jurors coast to coast. "In certain parts of the country, people blame the Japanese for job loss and adverse economic conditions," says Robert D. Minick, managing director of Litigation Sciences' New York regional office. Another jury consulting firm, VerdictQuest, has found repeatedly

that mock jurors make different decisions when presented with identical cases except for the nationality of the defendant, which is changed from American to Japanese. And Robert T. Greig, a New York lawyer specializing in Japan, says Japanese companies routinely choose to settle cases because they believe they won't get a fair shake from an American jury.

BAD REPUTATION. Outwardly, Japanese companies are loathe to characterize U.S. juries as biased, fearing that any criticism will antagonize their American counterparts and intensify the debate about the shortcomings of their own legal system. "The U.S. court system... is not a problem if you know what you are doing," said Sony Corp. Chairman Akio Morita in an interview on Japanese television last year. The Japanese do complain about U.S. jurors' ability to grapple with technical issues that arise in business disputes—a problem they admit also exists in their country.

Still, there are numerous instances in which U.S. jurors find in favor of

Japanese and other foreign defendants. And many lawyers argue that stories about jurors' prejudices are not credible. "It doesn't make any difference if a defendant is German, Japanese or whatever," says Kenneth B. Herman, a patent lawyer who has tried many cases involving Japanese defendants. "Juries don't have these biases."

Whether they do or don't, America's reputation for litigiousness and bias creates problems. U.S. lawyers with foreign clients say impressions of the American legal system are causing international companies to use British law instead of U.S. law whenever possible to craft deals. Some lawyers even say some clients resist U.S. markets altogether because of litigation fears.

While such setbacks do occur, most international legal experts say the advantages of doing business in the U.S. ultimately outweigh any negative impressions of American juries. Just as long as they don't get sued.

By Linda Himelstein in New York, with Neil Gross in Tokyo



EDITED BY AMY DUNKIN

Investing

FUNDS: DON'T IGNORE THE IN-HOUSE BRAND

Time was, you had good reason to wonder if your broker had your best interest at heart if he pitched a mutual fund with his firm's name on it. Only a few years ago, brokers were given to pushing trendy, high-commission in-house investments, many of which have flopped.

Brokers can still earn incentives by selling in-house funds, but they seem to be shying away from the aggressive sales tactics that tarred their reputation. More important, firms have beefed up the breadth and quality of the fund offerings and are boosting old faithfuls, such as utility and growth and income

funds, rather than flashy new products.

If you need convincing, look at the numbers. Stock funds sold by the five big houses—Dean Witter, PaineWebber, Merrill Lynch, Smith Barney Shearson, and Prudential—have averaged 19.7% gains through Oct. 22, while independent load equity funds averaged 15.96%. Prudential, the star, returned nearly 25% on equity funds this year.

TOE-TO-TOE. On the fixed-income side, PaineWebber, Dean Witter, and Merrill Lynch all narrowly beat the average for nonproprietary load funds through September. In other categories and in

general, proprietary funds are virtually neck and neck with load fund rivals for the year-to-date, 5-year, and 10-year returns. But, although their averages are the same, "you tend to see a more narrow range of performance," says Don Phillips, vice-president at Morningstar, a mutual-fund rating service. That means brokerages can be credited with having fewer winners, but also fewer losers.

Morningstar has found that returns for funds with sales charges and direct-marketed (no-load) funds are comparable—when the sales charge is factored out. But brokerage houses, as well as other

load fund companies, and that advice from their representatives is well worth extra cost.

That's not to say the brokerages haven't launched real stinkers. The fixed-income arena, especially, has been a graveyard of new, underperformed products sold to investors without an explanation of potential risks. Many proprietary high-yielding junk funds, government funds, short-term global funds have been disappointments.

Morningstar recently listed the funds that had the most redemptions. The unenviable top four are all brokerage funds: Dean Witter Con-

Securities, Dean Witter Yield Securities, Smith Barney Shearson Government Securities B, and PaineWebber. S. Government Income Merrill Lynch's Federal Securities A and Balanced Fund Investment and Retirement B were also among the "sinking ships." "With a sticky product, a highly motivated sales force, and an aggressive sale—that's when fund companies tend to overpromise and underdeliver," says Flynn, who thinks brokers have learned from past mistakes.

Despite its sorry redemption record, Dean Witter's Yield Securities fund is a round story. It declined in 1990, only to shine under manager Peter Avelar over at the end of that year. Morningstar rates it second of 76 high-yield corporate funds this year. But none of the redemptions had fully taken place. From a total of \$2.1 billion in 1986, it fell to \$312 million by 1990 and has slowly edged back to \$534 million this year. Jim Flynn, a Dean Witter spokesman, says this is just one of several in-house funds in its lineup.

STANDBYS. Current hot among brokerage funds are long track records and managers. Merrill Lynch's Value A and Basic Value A, with growth and income, have averaged better than 4% returns for 10 years. Prudential's Utility A, which is up 1% through Oct. 22, and Smith Barney Shearson Speculatives B, up 43.2%, are big praise.

Sometimes, new products help. Merrill boasts that it had some of the first funds in the Pacific Rim country and other emerging nations. Prudential's Pacific Fund is ranked No. 1 of 26 corporate stock funds, and its Genesis B is second of 100 stock funds for one-year returns.

It's not because their funds have performed well lately that it means that you shouldn't still be wary when a broker suggests an in-house fund. No matter how

good its lineup, no fund company has the top performers in all major investment categories. While brokerage houses have filled out their product lines and weeded out losers, they still give their brokers good reason to push the company brand.

Some firms, including Pru-

dential, Dean Witter, and PaineWebber, offer brokers a bigger cut of the commission to sell proprietary products. A \$300,000 producer would typically earn 41% of the total sales commission for a private-label fund, while he or she would get 36% for selling an outside fund. That means,

percentage—for the next 30 days for the sale of a specific fund. Another, more subtle incentive is that brokers can curry favor with their branch manager by selling firm products. Managers can respond by doling out new accounts and parts of hot new stock deals to the broker.

When incentives aren't enough, brokerage houses have used other tactics. Dean Witter, which attributes 70% of its fund sales to in-house names, was flooded with bad publicity when it restricted representatives of independent fund groups from visiting branch offices in 1991—a temporary policy, Flynn says.

Merrill Lynch does not have a separate commission structure for in-house and outside funds. And when Smith Barney, Harris Upham officially merged with Shearson Lehman Brothers on Labor Day, the two firms agreed to offer the same commission on all funds, although Smith Barney had a different payout structure for in-house funds before. But executives from companies that offer incentives don't apologize for creating an apparent conflict of interest. They say the incentives are modest and brokers are trained to pick the best fund for their client. "But if all

things were equal between two funds," says Richard Redeker, president of Prudential's mutual fund operations, "I would expect them to give stronger consideration to the in-house fund."

Brokers do have some substantial incentives not to sell the proprietary product. For one, if they want to change firms, it will be easier to bring along clients who are not invested solely in their former firm's products. Also, many brokers learned the hard way during the 1987 stock market crash that they will lose clients if they peddle investments that are too risky or perform poorly. "The better brokers will judiciously choose those firm products that are in their client's best interests," says Mark Elzweig, a New York brokerage recruiter, who says fewer brokers are complaining of product-pushing than years ago.

SAY "NO DUDS." Brokers have forced their employers to reduce that pressure, says Todd Robinson, chairman of LPL Financial Services, an independent brokerage that does not sell in-house products. "They've become slightly less heavy-handed," he says. "But if you look at economics, the fact is that a sale on a proprietary fund is four or five times as profitable as an outside fund."

To make sure your broker isn't trying to saddle you with a dud, ask for the fund's complete track record and stick with funds that have outperformed the average for their category for at least three years. Make sure your broker can explain the objective of the fund and how it fits into your portfolio. Brokers are there to help you choose among investments, explains Keefe. "Don't just walk into an office and let someone else make a decision for you."

And feel free to ask if your broker gets any extra goodies from the sale, such as bonus points or gifts. If he or she is earning a free cruise because you bought the in-house fund, at least make sure that fund is a good one. *Amey Stone*

HOW BROKER FUNDS STACK UP

Firm	Equity funds		Bond and muni funds	
	1993*	5-year**	1993*	5-year**
DEAN WITTER	22.12%	13.59%	11.18%	9.01%
PAINWEBBER	15.64	14.27	11.92	10.69
MERRILL LYNCH	19.91	10.74	10.63	10.13
SMITH BARNEY SHEARSON	17.10	12.60	10.19	10.13
PRUDENTIAL	24.88	13.03	9.94	9.19
NONPROPRIETARY LOAD FUND AVERAGE	15.96	14.11	10.47	9.99

*Returns through Oct. 22

** Average annualized returns

DATA: MORNINGSTAR INC.

IN-HOUSE FUND QUESTIONS

- What is the fund's track record?
- How does it compare with outside funds in the same category?
- What compensation do you get out of it?
- Are there any bonuses or prizes attached to this product?
- Where does it fit into my overall investment strategy?

DATA: BUSINESS WEEK

on a \$10,000 transaction, the broker would pocket about \$25 more for putting a client in an in-house fund.

While that's hardly a windfall, other incentives may be at work. Firms often run special promotions on certain

Fitness

GETTING A KNOCKOUT OF A WORKOUT

For three minutes, the world shrank to the face of former World Boxing Council super-lightweight champion Lonnie Smith and a single thought: Don't hit like a girl. Just beyond the reach of my tan boxing gloves, Smith's voice urged: "Harder. Work harder." It was jab, jab, right hook, duck, then spring up and throw my body into a last right hook. When the bell rang to end one round, I folded from exhaustion. The fight had really been a one-sided match against two large pads Smith held up while I flailed away. But I felt euphoric. And I did not even like the *Rocky* movies.

Tired of leg lifts and endless stair climbing to nowhere, more exercise buffs are experiencing their own version of my little drama. Boxing for



SPAR STRUCK: ENTHUSIASTS LIKE BOXING'S AGGRESSIVE EDGE

fitness may be the hottest thing to hit the gym since step aerobics. "It helps people work out frustrations, and it burns more calories than other workouts," says Lesley Howes, owner of Manhattan's Crosby Street Studio.

Some enthusiasts like boxing's aggressive, competitive edge, and they have created a market for executive gyms, such as Wall Street Boxing Fitness in Manhattan, and for modified classes at traditional boxer hangouts, such as Gleason's Gym in Brooklyn. Others also feel a new sense of power. Bodies In Motion in Los Angeles claims 1,600 women and 900 men in its Executive Boxing program. Generally, single workouts range from \$12 to \$20, while club memberships run \$40 to \$75 a month. Gyms will provide hand wraps and gloves, or you can buy your own for \$50 to \$100.

Some boxing workouts are essentially aerobics sessions that incorporate shadow-boxing moves, as shown in exer-

cise maven Kathy Sm soon-to-be-released *Aer Workout* video (\$19.95, A sion Entertainment). But recent growth has been workouts that resemble conditioning routine of a er, à la former champion ar Ray Leonard's new v *Boxout* (\$19.95, Polygram). **PAD WORK.** A typical session might include a warm-up stretch, instruction in techniques, and 12 three-minute rounds of shadow-boxing, jump rope, heavy-bag punching, weights, and speed work. Last comes a half-hour of calisthenics and a down. Many classes involve the "pad work" that goes so charged up, and some controlled sparring with a instructor. But some gyms consider one-on-one punching dangerous for novices.

In the end, you may not be ready to take on Riddick B. But you're likely to be tired. Boxing workouts burn about 900 calories in 90 minutes—450 for aerobics—and sm After my bout, I left humming the theme from *Rocky* in my head. Heather M

If employees don't already have enough good reasons to think carefully about how to invest their retirement dollars, they may have one more on Jan. 1. That's when new Labor Dept. rules take effect that will enable employers offering 401(k)s and other so-called defined-contribution plans to wash their hands of legal responsibility for losses resulting from workers' poor investment decisions.

To get off the fiduciary hook, employers will have to offer at least three broad, diversified investment options, supply sufficient information on the plan and picking investments, and permit asset shifts at least every quarter. If the plan offers especially risky selections, such as global or sector funds, workers must be able to move money out as often as "appropriate."

Employers aren't required to comply with the rules, contained in Section 404(c) of

Smart Money

YOUR 401(k) MAY SOON GET MORE COMPLICATED

the Employee Retirement Income Security Act of 1974 (ERISA), but many companies are making adjustments to escape potential liability. For example, those that offer

Employers that offer more options can limit liability for nest egg losses

only fixed-income funds may add, say, a blue-chip equity and a growth fund. Although plan sponsors have generally been increasing their options anyway, some still have just one or two selections. They're also bringing in mu-

tual-fund managers, such as Fidelity Investments and Dreyfus, to hold financial planning seminars, and hiring benefit consultants, such as Towers Perrin, to prepare training materials.

LAGGARDS. Thanks to the rules, employees who never had to make difficult decisions about allocating retirement kitties will soon be forced to think harder about this. Planners say the most common mistake workers make is putting all their money in the most conservative funds, such as money markets, or those guaranteeing a set rate of return. Over the long term, adds a Labor Dept. benefits specialist who helped draft the regs, "the

difference between 7% and 10% may mean the difference between a comfortable retirement and living on the edge.

In general, planners counsel younger employees to invest relatively more money in stocks and less in bonds and fixed investments. As they get closer to retirement, they can shift assets into less volatile, income-producing funds. Jeffrey Fricklin, president of Financial Planning Associates in New York, advises making whatever 401(k) contribution necessary to trigger the best possible employer-matching contribution.

Incredibly, some employees still aren't taking advantage of 401(k) plans at all, says Susan Olin, an underwriting manager for Hancock Financial Services. She thinks that the new education programs could change that. Her message to laggards: Get with the program. Phillip Z

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GEOGRAPHIC TARGETING



Illustration by Jean Tuttle. As seen in BusinessWeek, February 22, 1993 Issue.

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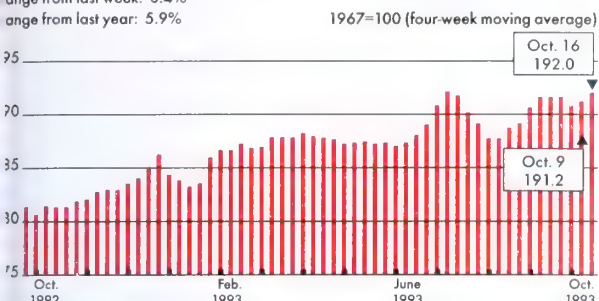
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BusinessWeek Index

PRODUCTION

Change from last week: 0.4%
Change from last year: 5.9%

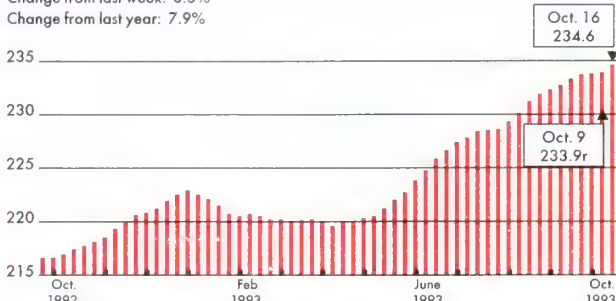


The production index climbed higher in the week ended Oct. 16. After seasonal adjustment, auto output led the gainers, while production of steel and coal also posted solid advances. Crude-oil refining picked up, as did rail-freight traffic. Paper production fell, while output of both trucks and electric power edged lower. Output of paperboard and lumber were unchanged. Before calculation of the four-week average, the index rose to 193.3 from 192.8.

BW production index copyright 1993 by McGraw-Hill Inc.

LEADING

Change from last week: 0.3%
Change from last year: 7.9%



The leading index continued to rise in the latest week as stock prices gained ground. Also in the plus column: Bond yields dipped still lower, and the rate of decline in materials prices slowed, while real estate loans grew at a faster clip. On the downside, failures of large businesses rose, and the growth rate of the M2 money supply slowed. Before calculation of the four-week average, the index rose to 237.2 from 234.8 the week before.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (10/23) thous. of net tons	1,901	1,883#	10.4
OS (10/23) units	129,905	129,478r#	0.3
CKS (10/23) units	110,146	111,384r#	12.4
ELECTRIC POWER (10/23) millions of kilowatt-hours	54,477	54,395#	0.4
CRUDE-OIL REFINING (10/23) thous. of bbl./day	13,578	13,926#	0.1
STEEL (10/16) thous. of net tons	19,316#	18,808	1.5
PAPERBOARD (10/16) thous. of tons	824.1#	818.0r	9.0
STEEL (10/16) thous. of tons	780.0#	806.0r	2.0
LUMBER (10/16) millions of ft.	485.1#	479.6	2.8
RAIL FREIGHT (10/16) billions of ton-miles	22.9#	22.7	5.5

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA¹, SFPA², Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
YEN (10/27)	108	107	123
DM (10/27)	1.68	1.65	1.53
POUND (10/27)	1.47	1.49	1.57
FRANC (10/27)	5.87	5.83	5.20
ADIAN DOLLAR (10/27)	1.32	1.32	1.24
SS FRANC (10/27)	1.48	1.45	1.37
ICAN PESO (10/27) ³	3.113	3.111	3.108

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
WHEAT (10/27) \$/troy oz.	371.500	372.500	9.8
SCRAP (10/26) #1 heavy, \$/ton	131.50	131.50	46.9
TEXTILES (10/26) index, 1967=100	215.7	214.7	10.1
WHEAT (10/23) \$/lb.	84.5	85.6	-19.1
MINUM (10/23) \$/lb.	52.0	52.0	-2.8
WHEAT (10/23) #2 hard, \$/bu.	3.39	3.44	-4.5
IRON (10/23) strict low middling 1-1/16 in., \$/lb.	55.50	54.88	9.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals & Minerals, Kansas City market, Memphis market

All data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. ¹Western Wood Products Assn. ²Southern Forest Products Assn. ³Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/22) S&P 500	465.87	463.36	12.2
CORPORATE BOND YIELD, Aaa (10/22)	6.63%	6.62%	-17.5
INDUSTRIAL MATERIALS PRICES (10/22)	94.4	94.3	-2.4
BUSINESS FAILURES (10/15)	349	345	-3.6
REAL ESTATE LOANS (10/13) billions	\$407.4	\$405.0r	0.9
MONEY SUPPLY, M2 (10/11) billions	\$3,503.1	\$3,504.9r	1.2
INITIAL CLAIMS, UNEMPLOYMENT (10/9) thous.	344	321	-6.3

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
HOUSING STARTS (Sept.) annual rate, thous.	1,351	1,314r	10.9
REAL GROSS WEEKLY PAY (Sept.)	\$254.31	\$256.53	0.3
IMPORTS (Aug.) millions	\$47,925	\$47,534r	6.4
EXPORTS (Aug.) millions	\$38,212	\$37,109r	5.1

Sources: BLS, Commerce Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/11)	\$1,113.1	\$1,113.5r	10.6
BANKS' BUSINESS LOANS (10/13)	270.4	270.8	-3.2
FREE RESERVES (10/13)	700r	984r	-27.4
NONFINANCIAL COMMERCIAL PAPER (10/13)	160.8	161.5	12.4

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (10/26)	3.03%	2.94%	2.96%
PRIME (10/27)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (10/26)	3.28	3.24	3.47
CERTIFICATES OF DEPOSIT 3-MONTH (10/27)	3.28	3.23	3.39
EURODOLLAR 3-MONTH (10/22)	3.25	3.25	3.46

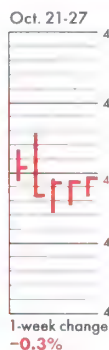
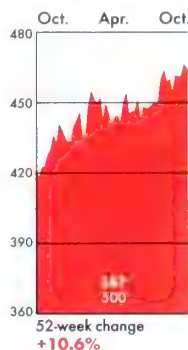
Sources: Federal Reserve Board, First Boston

Investment Figures of the Week

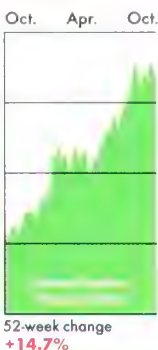
MARKET COMMENTARY

As the U.S. economy is limping, squelched the bond market. The sell-off pushed the price on the 30-year U.S. Treasury bill back up to 6%. Better economic news, however, gave the market reason to cheer. The Dow Jones industrial average hit its all-time high of 3673.6 on Oct. 26 before beating a retreat. The market's nose market was derailed, in part by an ill-timed offering of a bad stock. Gold and gold-mining issues continued to rebound from their September lows.

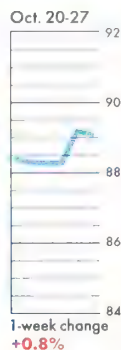
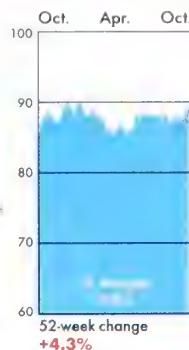
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3664.7	0.5	12.7
DOW JONES COMPANIES (S&P MidCap Index)	174.1	0.3	18.7
DOW JONES COMPANIES (Russell 2000)	256.0	0.4	29.4
DOW JONES COMPANIES (Russell 3000)	268.4	-0.2	13.1

FOREIGN STOCKS	Latest	% change Week	% change 52-week
DOW JONES FINANCIAL TIMES 100	3154.3	-0.1	19.0
DOW JONES NIKKEI INDEX	19,838.8	-1.7	16.2
DOW JONES TSE COMPOSITE	4197.5	0.4	25.9

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.15%	3.12%	3.01%
30-YEAR TREASURY BOND YIELD	6.00%	5.82%	7.61%
S&P 500 DIVIDEND YIELD	2.69%	2.73%	3.02%
S&P 500 PRICE/EARNINGS RATIO	22.2	21.9	22.4

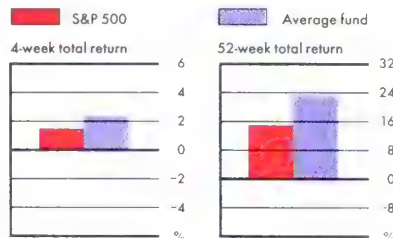
TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	452.6	415.5	Positive
Stocks above 26-week moving average	62.0%	64.7%	Neutral
Speculative sentiment: Put/call ratio	0.38	0.39	Neutral
Insider sentiment: Vickers sell/buy ratio	2.32	2.56	Neutral

INDUSTRY GROUPS

4-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
OLD MINING	22.0	65.2	PLACER DOME	29.9	112.8	25
BROADCASTING	13.1	-69.7	COMCAST	20.8	172.2	39 1/8
HEALTH-CARE SERVICES	12.1	-28.2	AMGEN	14.4	-33.1	43 3/4
TABACCO	11.9	-27.0	PHILIP MORRIS	15.1	-29.7	52 3/8
STEEL	10.8	54.1	USX-U.S. STEEL GROUP	23.0	44.5	38 1/8
4-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
POLLUTION CONTROL	-15.5	-30.9	WMX TECHNOLOGIES	-19.8	-35.9	24 3/4
BOOKING FIRMS	-8.7	64.3	BEAR STEARNS	-13.3	54.0	22
MULTILINE INSURERS	-7.9	21.9	AMERICAN INTERNATIONAL GROUP	-11.6	20.5	88
SEMICONDUCTORS	-7.5	89.1	ADVANCED MICRO DEVICES	-34.0	34.8	19 3/8
SURANCE BROKERS	-7.3	-10.9	ALEXANDER & ALEXANDER SERVICES	-9.6	-21.1	20 1/8

MUTUAL FUNDS

LEADERS		LAGGARDS		S&P 500		Average fund	
4-week total return	%	4-week total return	%	4-week total return		52-week total return	
DOW JONES STRATEGIC INVESTMENTS	19.5	MIM STOCK APPRECIATION	-7.5				
DOW JONES PRECIOUS METALS HOLDINGS	16.3	SCHOONER	-7.2				
DOW JONES ANCHARD PRECIOUS METALS	15.8	SELIGMAN COMMUNICATIONS/INFORMATION A	-5.9				
52-week total return	%	52-week total return	%				
DOW JONES STRATEGIC INVESTMENTS	156.0	PILGRIM CORPORATE UTILITIES	-13.3				
DOW JONES HIGH GROWTH	88.5	INVESCO STRATEGIC ENVIRONMENTAL SERVICES	-8.8				
DOW JONES CEL MIDAS GOLD	76.0	JENSEN	-6.6				



RELATIVE PORTFOLIOS

Investment amounts	Foreign stocks	Treasury bonds	U.S. stocks	Gold	Money market fund
Investment amounts	\$14,225	\$12,695	\$11,327	\$10,853	\$10,219
Investment amounts	+0.27%	-1.83%	-0.41%	+0.50%	+0.04%

As of this page are as of market close Wednesday, Oct. 27, 1993, unless otherwise indicated. The groups include S&P 500 companies only; performance and share prices are as of market close

Oct. 26. Mutual fund returns are as of Oct. 22. Relative portfolios are valued as of Oct. 27. A more detailed explanation of this page is available on request.

GOING GLOBAL TO FIND GROWTH

One of the incontrovertible facts of life in the new global economy is convergence. Economies everywhere are becoming market-based in form and middle class in lifestyle. Another incontrovertible fact is speed of change. Convergence is happening so fast that the market system, for the first time, embraces practically the entire world. New capitalist countries are racing to catch up, their growth rates surpassing those of the older market economies. As a result, the U.S., Europe, and Japan appear to have lost their leadership roles in sparking economic growth. Asian and Latin American markets are becoming increasingly vital to American, European, and Japanese companies.

Look at the numbers. Corporate leaders are salivating over estimates that fourth-quarter U.S. economic growth may clock in at a 4% rate. That's way above the first half's puny 1.3% rate and significantly higher than the average 2.5% growth rate for the U.S. during the 1980s.

So 4% is pretty good, huh? Not by East Asian standards. From 1981 to 1990, China's growth rate averaged 10.1%, dipped to a mere 7.5% in 1991, then jumped to nearly 13% in 1992 and double digits for 1993. It's the same all over Asia, with countries racking up growth rates of 6% to 10% annually. Even stodgy India outpaced U.S. growth in the 1980s with a 5.8% rate. It expects 5.4% in 1993 and 6% in 1994.

No wonder corporations such as General Electric Co. are going for the growth—no matter where it is. GE has been placing heavy long-term bets in China, India, Mexico, and Southeast Asia to move the focus of the company to high-growth Asian and Latin American countries, away from the low-growth U.S. and Europe (page 64).

Faced with slow-motion expansion in U.S. and European revenues and worldwide disinflation that prevents price hikes, companies have been turning to cost-cutting to raise profits. But downsizing and layoffs have their limits. Moving into fast-growing countries allows companies to generate profits by expanding, not shrinking. It's a lot more fun for GE—and for everyone in the global economy.

CLINTON AND NAFTA: GOOD NEWS AND BAD NEWS

President Clinton has been playing a tight inside game in negotiating the passage of the North American Free Trade Agreement. Instead of hitting the stump and publicly shouting the verities of NAFTA—free trade with Mexico will boost exports and generate jobs—he has chosen to deal, quietly exchanging government goodies for congressional votes. To the surprise of many Beltway pundits, the strategy appears to be working. The Administration seems to be garnering enough votes for passage (page 32). Chalk up one for the Prez?

Yes—and no. Without doubt, it took courage to adopt a

Republican free-trade treaty and push it against a united front of labor-union opposition. With congressional elections a year away and 1996 looming, going head to head with the unions, the most powerful force in the Democratic Party, wasn't easy. But President Clinton did the stand-up thing, and the country will benefit.

But at a price. By not using his office as a bully pulpit to push NAFTA and free trade sooner, President Clinton gave airwaves over to the forces of protectionism, isolationism, and general yahooism. A weird witches' brew of opposition, including Ross Perot, Pat Buchanan, Ralph Nader, and the usually sober Sierra Club, has had free rein for months to play on economic and social insecurities. Strange paranoid passions have been unleashed: fear of loss of national sovereignty, a suspicion of international corporations conspiring to harm the working class.

This nativism will not go away anytime soon. It is, say, the price the country will pay for the inside, dealmaker strategy used to pass NAFTA.

DESPERATELY SEEKING EUROPEAN LEADERSHIP

Airline employees shut down French airports to protest downsizing. Workers riot in Italy to halt closure of an inefficient chemical plant. German steelworkers brace for a showdown with management. Signs of discontent are everywhere that a winter of discontent has come early to Europe, an economic storm mixing recession and corporate restructuring (page 50).

All across the European Community, there has been panic about political leadership in coming to terms with what lies at the heart of much of the region's strife—lagging productivity. European leaders clutch at the tattered Maastricht treaty as if it were a talisman against the forces of worldwide competition.

In this time of discontent, French Prime Minister Edouard Balladur took power with the promise of filling Europe's leadership void. With hard-won gains against inflation and labor excesses as a foundation, Balladur was poised to establish France as Europe's leader in an open world economy.

Sadly, Balladur has instead become a master of retreat. Privatizations of state-owned companies now have limited foreign ownership. Calls for a global trade accord have become demands for protecting agriculture and the entertainment industry. A chance to restructure Air France may now be lost.

A new report compiled by McKinsey & Co. highlights Europe's dilemma. In measuring labor productivity in key industries, McKinsey found Japan leading in five and the U.S. in four. Germany, Europe's technological leader, leads in none, including autos. One explanation: German innovation has suffered because its companies have tended to compete regionally, within Europe, rather than globally.

European politicians must step forward and provide leadership to compete in the global economy. If they don't, Europe will be enveloped in labor unrest, protectionism, and decline.

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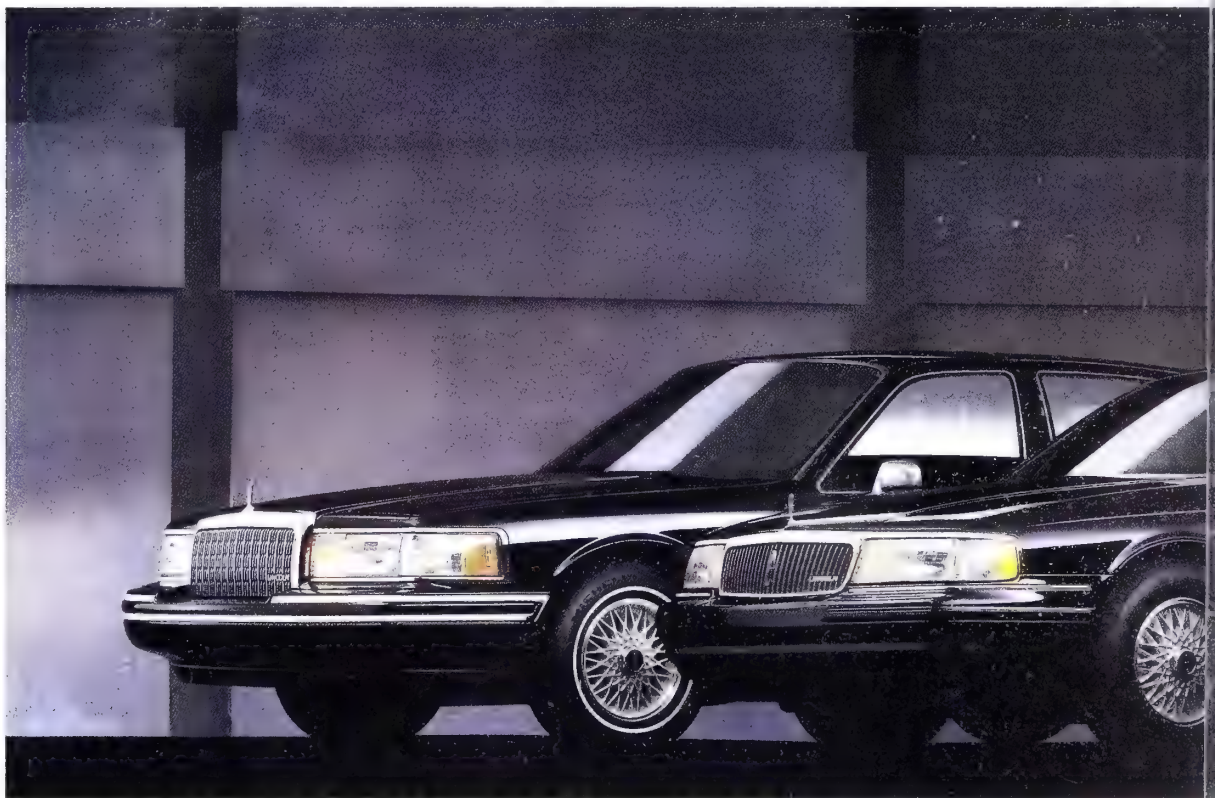
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BusinessWeek

EMBER 15, 1993

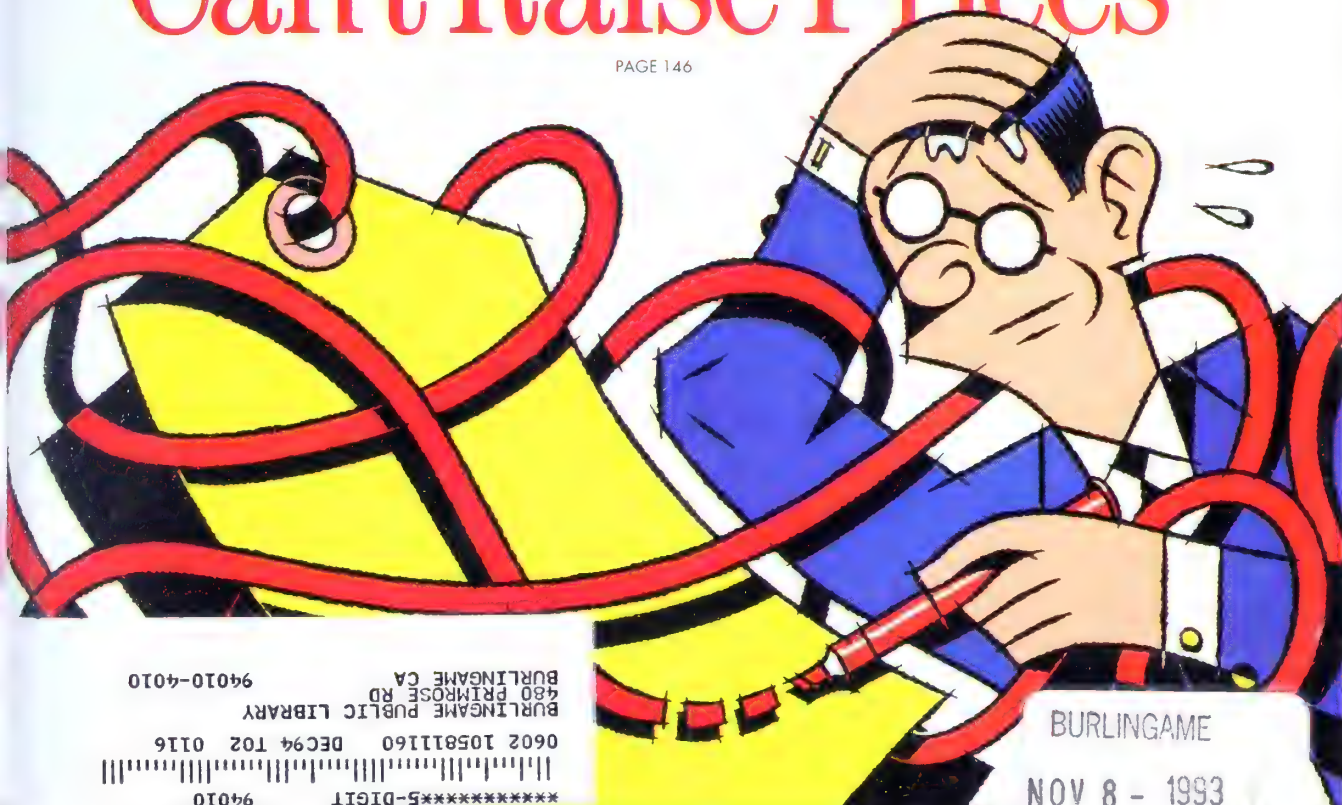
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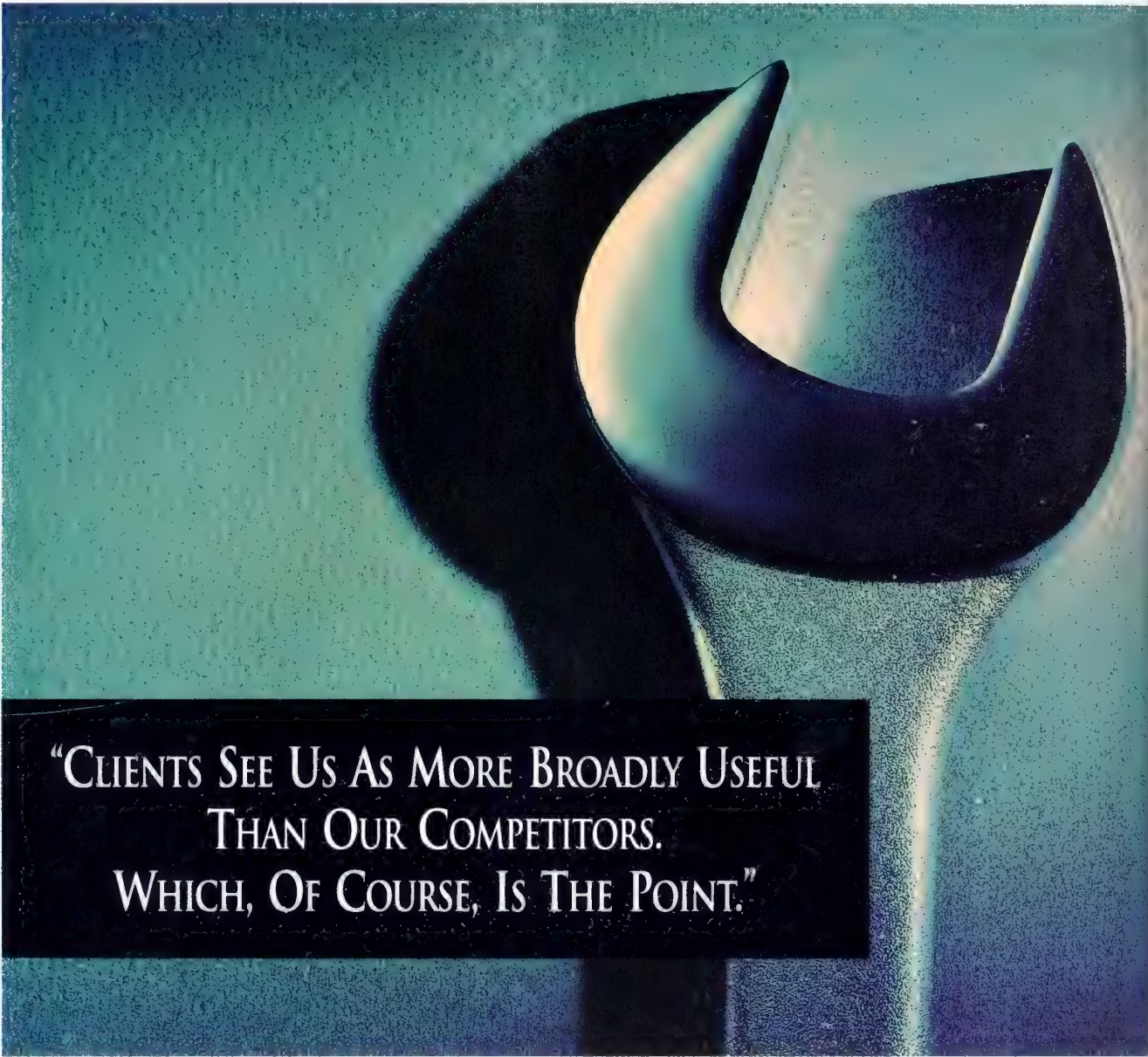
How Companies Cope When They Can't Raise Prices

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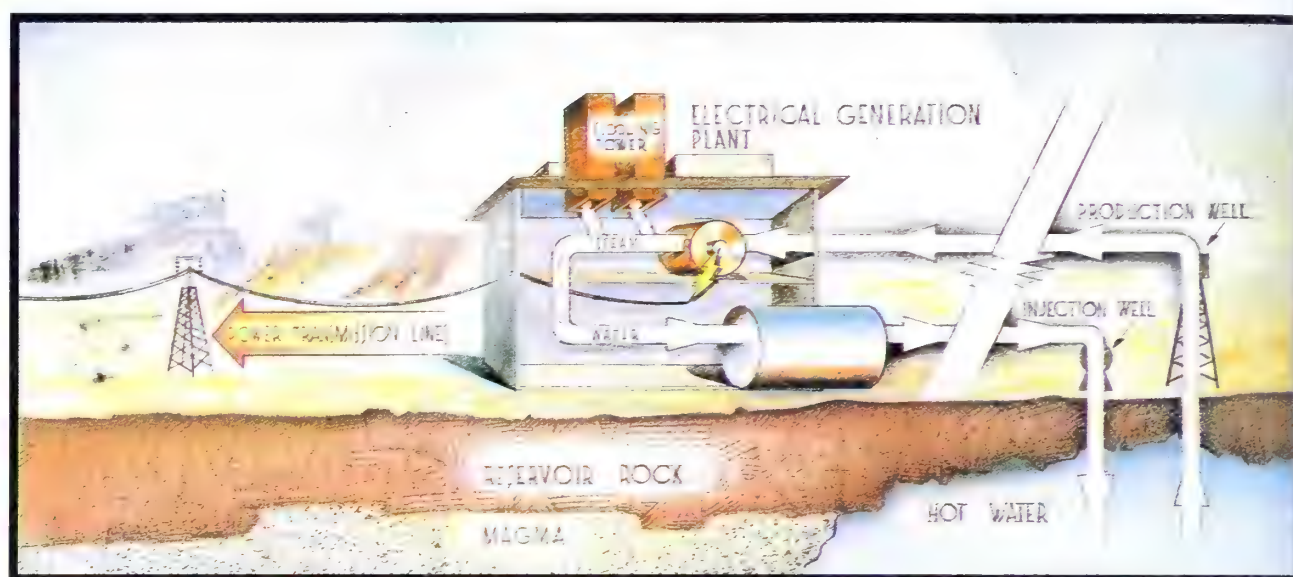


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TO REFINANCE
California Energy built
a pipeline to the market
and opened up a new
reservoir of funding

In 1992, sources of capital were scarce independent power companies, particularly those seeking to refinance projects involving an alternative source of energy like geothermal.

California Energy needed a solution as innovative as the power source involved. They chose Lehman Brothers to lead the way.

THE RESOURCES TO SEEK OUT A NEW SOURCE OF CAPITAL.

Together, California Energy and Lehman Brothers determined that a pooled bond — one secured by the cash flows from three geothermal projects in an underwritten quasi-public transaction — would result in the most favorable interest rates and financial covenants.

To succeed, such a bond would have to pass muster with the credit rating agencies. And become the first project credit to receive investment grade credit ratings.

But few outside the industry knew

much about geothermal energy. Lehman Brothers mounted an intensive effort to provide the agencies with the information they needed. Then, our analysts and sales force met with investors to help them recognize the potential of a venture backed solely by revenues of a geothermal project.

Together, California Energy and Lehman Brothers raised \$560 million in senior secured notes and created a blueprint for the future for independent power producers.

THE POWER TO EXECUTE INNOVATIVE SOLUTIONS.

Lehman Brothers is a leader in financing and advising the independent power industry. Drawing on the strengths of the entire firm, we are able to structure groundbreaking transactions to meet each client's unique needs.

If your company could make use of the resources we offer, we'd like to be involved.

LEHMAN BROTHERS



BRAND NAMES AT NO-NAME PRICES: THE RISING QUALITY AND POPULARITY OF MANY GENERIC PRODUCTS HAS MARKETERS SCRAMBLING

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The Age of Disinflation is creating a business landscape that few managers have seen in their professional lifetimes. How are companies coping when they can't raise prices? To preserve profits and eke out growth, they're designing and manufacturing to meet low price targets, cutting promotions to pay for everyday low prices, and offering no-frills or better-value products

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EDITED BY LARRY LIGHT AND JULIE TILSNER

PROFIT & GLOSS

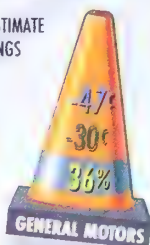
DETROIT WATCHERS EARNED A 'D'

Earnings for the Big Three auto makers embarrassed a lot of pessimistic Wall Street analysts in the third quarter, with just a few calling it right. Car company earnings came in far above analysts' consensus estimates, as figured by Zacks Investment Research (table). Zacks uses results from continuing operations to figure earnings, excluding most one-time charges.

HOW WIDE OF THE MARK?

THIRD-QUARTER EARNINGS PER SHARE CONTINUING OPERATIONS ONLY

CONSENSUS ESTIMATE
ACTUAL EARNINGS
HOW FAR OFF



DATA: ZACKS INVESTMENT RESEARCH INC.

Among the red faces was Mark Leach of Value Line, who came up short by predicting a loss of 5¢ a share for Ford, when the No. 2 car-maker actually posted a 51¢ gain. Joseph Phillippi of Lehman Brothers projected a loss of 85¢ for General Motors, far worse than the a 30¢ loss GM ended up with. David Garrity of McDonald & Co. projected a 30¢ profit for Chrysler, which almost tripled that. Whoops. Phillippi and Leach did not return calls, and Garrity could not be reached. How did they go wrong? Leach's projection, published a month before Ford reported, concluded that stinko sales in

recession-wracked Europe would blow away good news elsewhere.

A happy few came close. Lee McMillan of tiny, Chicago-based Marksmen Management Research wasn't fooled. He predicted an almost dead-on 55¢ on Ford. His secret: focusing on how many cars are being built, which he feels is what companies can sell. □

CAPITAL INFUSIONS

STILL INVESTORS' CUP OF TEA

Snapple Beverage, whose stock short-sellers love to hate, keeps dodging brickbats. The latest is a Food & Drug Administration inquiry into whether its iced teas and fruit drinks are made from the natural ingredients it claims. When the news of the probe broke in mid-October, the stock lost two points, going to 23. (Snapple went public last December at 8.) But the FDA tells BUSINESS WEEK it has ended the investigation without taking action. A similar probe by California regulators is expected to be called off, too.

The FDA probe at least had some substance. Last summer, the Valley Stream (N.Y.) outfit had to launch a costly ad

TALK SHOW

When you actually see the car, it turns out to be a Yugo. When you listen to the speech, it's a Rolls-Royce.

—House Minority Whip Newt Gingrich (R-Ga.), after eyeballing the Clinton health-care bill



EMBATTLED BOTTLE: Hidden messages are in the eye of the beholder

campaign to debunk rumors that drink containers' labels depicting the Boston Tea Party really show a slave ship.

Wall Street isn't even ruffled that insiders are unloading some stock, peddling 8% of Snapple. No proceeds will go to building Snapple, which feels it doesn't need more capital. CEO Leonard Marsh and

his two partners each should clear a cool \$17 million. Boston financier Thomas Lee and his funds should nab a dazzling \$100 million, more than four times their original investment. Does the part cashout mean they think Snapple has peaked? They say SEC rules won't let them talk during stock offerings.

JOB TRAINING

A BOARD OF EDUCATION FOR THE BOARD

You'd think someone elected to a corporate board would know what the job entailed. Think again.

The Wharton School and executive search firm Spencer Stuart are offering a new twice-a-year, two-day school for directors, with the first session set for December. And it's not rookie directors but veterans who have grabbed most of Wharton's 40 spots—from

such big companies as Hercules and Hewlett-Packard.

Why the interest? The directors' task lately has become much more hands-on.

Increasingly, they are being pilloried as inept tentative overseers when a company's fortunes sour. At Wharton, the students will act as directors of the ailing MegaMicro Inc. The big question: Will they ax the CEO? Judith H. Dobryzyn



REALITY CHECK

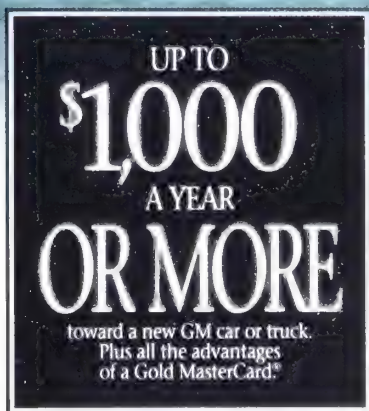
INSURERS SAY the Clinton health proposal will restrict Americans' choices of medical care plans. In a TV spot sponsored by the Health Insurance Association of America, a homey couple named Harry and Louise complain that they

may be forced to "pick from a few health plans designed by government bureaucrats." The industry argues that, with 1,500 private insurers, each offering many different policies, people benefit from an extensive menu of choices.



IN REALITY, Hillary Clinton has a point: Insurers are wrong. Now, many consumers face sharply limited choices of health plans—if they can get insurance at all. Most plans are punishingly expensive. A University of Michigan study found that coverage is flat-out denied to 15% of small compa-

nies. Employees with preexisting conditions also get shunned. Clinton's scheme has many weaknesses, but at least it tries to extend coverage to the 37 million uninsured. Most Americans would have three or a dozen health networks to choose from. For many, that would be quite an improvement.



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Up Front

BALLPARK FIGURES

THE LATEST PLAY IN ANNUAL REPORTS

The tight security at Score Board Inc. isn't about a secret new product or even a dramatic merger. The company, which makes trading cards, autographed baseballs, and other sports memorabilia, is afraid that copies of its new annual report will be stolen.

Score Board's report is stirring excitement among collectors because the back page



contains six limited-edition cards of big-name basketball and football players, including NBA superstars Shaquille O'Neal and Alonzo Mourning. Dealers who were shown the cards say the O'Neal and Mourning pasteboards could fetch up to \$100 apiece on the open market. Says Christine Dolce, the Cherry Hill (N.J.) company's vice-president and secretary: "We decided to do something special for our shareholders."

Score Board sent the report to 5,000 shareholders, leaving 15,000 for collectors to gobble up. Dolce says after they're gone, the company

COST OF LIVING

WHAT THE TAXMAN TAKES IN BIG CITIES

Philadelphians have been griping about high taxes ever since the Stamp Act. Now, a new study by Vertex, a research firm in Berwyn, Pa., reports that Philly is the

nation's costliest city for businesses, based on local and state taxes.

There are some real surprises in this ranking of America's largest cities. No. 3 Seattle, generally thought to be inexpensive, turns out to be a tad more taxing for business than No. 4 New York. And San Francisco, widely held to be tax-hungry, actually placed a middling 11th.

The differences can be important. If based in Atlanta (No. 25), for instance, hypothetical \$15 million-a-year Phantom Services would pay just under \$1.12 million in taxes (including federal ones). By contrast, the same company would pay nearly \$1.43 million in Philly—a \$306,500 gap.

Sorting out the different types of levies in each city can be dizzying. New York imposes the highest state and local corporate income-based taxes, while No. 5 Chicago tips the scales in property taxes. And consider telecommunications taxes, where Florida takes 17% of the bill for in-state calls and 9.5% for interstate chats.

Are the differences big enough to make a move



HEAVIEST TAX BURDEN

TOTAL FEDERAL/STATE/LOCAL TAX, 1993

1. PHILADELPHIA	\$1,424,778
2. PITTSBURGH	1,351,948
3. SEATTLE	1,332,615

LIGHTEST TAX BURDEN

1. ATLANTA	1,118,239
2. BALTIMORE	1,136,140
3. DENVER	1,138,862

FOR A SERVICE COMPANY WITH \$15 MILLION ANNUAL REVENUE DATA: VERTEX INC.

DRAWN AND QUARTERED



will reprint the report, but without the cards. Wall Street brokers have been instructed to give clients a secret telephone number at Score Board to request a copy of the report. (Pssst. It's 800 899-1951) Chris Roush

PRODUCT PEEK

CRYSTAL GOO PERSUASION FROM P&G

How much antiperspirant did you put on this morning? Procter & Gamble has a couple of new deodorants that require real manual dexterity to put on the right amount. The new products are aimed at eliminating the downsides of other sweat-stoppers: the yucky, white-powder antiperspirant residue. Trouble is, if you smear on too much of the new "soft solid" versions of P&G's Sure and Secret deodorants, now being test-marketed in Boise, Idaho, you wind up with an ugly glaze anyway. But applying just the right amount is, well, a bit complicated.

To roll on Sure or Secret Ultra Dry correctly, you go to the dial at the bottom of the dispenser two twists. The white cream that emerges will remain invisible underarms when rubbed. Too many twists, though, and it's back to gunk city. The new products are P&G's first "clear" deodorants, which don't leave a mess. P&G claims its clear rivals do control wetness. They also don't require such precision either. Zachary Schiller



THE BIG PICTURE

SUCH A DEAL

Who shops in discount warehouses? The well-to-do. Almost one-third of U.S. households earning \$50,000 or more a year say they shopped in a warehouse in the past month. Of the under-\$15,000 group, just 9% did.



FOOTNOTES

Dollar increase in home refinancings, Jan. 1 to Oct. 31, 1993: 96%. Dollar decrease in loans to business, same period: 3%.



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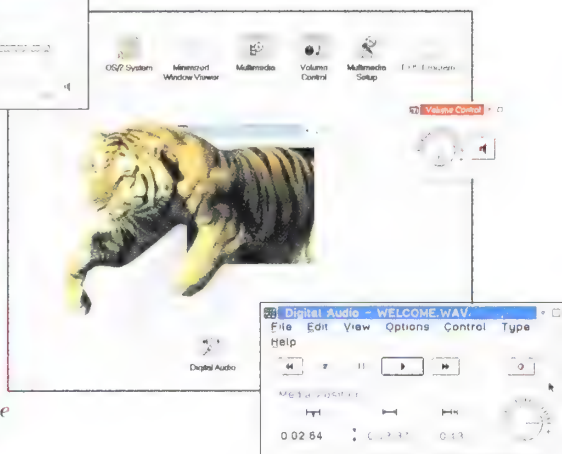


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EXTRA-CREDIT COURSES FOR CORPORATE EXECUTIVES

Your story "Corporate America's new lesson plan" (Special Report, Oct. 25) provided insightful coverage on the trend in Corporate America to use both business schools and in-house programs to introduce new concepts to managers and executives. But you missed another option that we've found very helpful.

A number of major companies, including Monsanto, are providing executive development through organizations that specialize in making topflight speakers on a host of pertinent subjects available on a regularly scheduled basis. In our case, we are one of 300 worldwide members of the Institute for Management Studies, which brings recognized business authorities to our various locations each month. Among the real advantages to the IMS system is that Monsanto executives join senior managers of like-size companies to spend a day studying a specific subject with a nationally recognized expert.

Further, we are able to send executives to specific seminars of greatest value to their job performance, thereby eliminating the possibility of forcing an executive to sit through a course that has absolutely no value to his or her function.

We have also found the IMS one-day seminar fits well with our budget and time constraints.

R. Keith Colgrove
Training & Development Manager
Monsanto Co.
St. Louis

I found the special report to be of great interest. Regarding the internationalization of executive programs, you may be interested in the University of Washington School of Business Administration's project in Romania.

We have been working since 1991 to enable the Academy of Economic Studies in Bucharest to launch the first MBA program in Romania. Funding provided by the U.S. Agency for International Development made it possible for more than 20 members of our faculty to visit Romania to develop a business manage-

ment curriculum, set up a modern student computing center and coach academy faculty.

The result is a program that will soon operate independently of its U.S. sponsors to train the managers who will lead Romania's transition to a free-market economy.

Robert S. Leventhal, De
School of Business Administrat
University of Washington
Seattle

Until we stop viewing leadership from a global perspective, or quality subject matter and understand the difference between delivering content and learning, there can be little improvement in the effectiveness of executive education. Developing the skills and habits of mind of leaders and thinkers requires the learner to undergo a process of conceptual and behavioral change that takes time and depends on consistent modeling and shaping of those skills and perspectives within a relevant natural context. For the senior manager, this implies that a classroom-like format, whether in a university or corporate setting, is unlikely to be the best choice.

To create the kind of learning that leads to real change, companies should consider long-term-development programs that are integrated with daily operations and guided by those who know how to foster skill development through critical-thinking methods. This approach to development makes sense for companies committed to the concept that people can represent a company's greatest possible competitive advantage.

Jane Robbins
Winchester, Mass.

There is an entirely new breed of management degree: Management Technology (MOT). While the division between science-technology-engineering and business is formidable, the MOT integrates technical knowledge and related problems with business sense.

In addition to all the necessary courses for an MBA, the MOT program addresses such topics as understanding the process of innovation, new-product development and introduction, and how new and emerging technologies affect

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nce, marketing, and other management functions.

I am a third-semester student in the Executive Management of Technology degree program at Polytechnic University in Brooklyn, and the only entrepreneur in the class. I returned to the classroom not only to sharpen my business skills but also to learn firsthand the typical problems our clients wrestle with when managing technology.

Scott Wohlstein
Convent Station, N. J.

SS RETAILERS: MED AND DANGEROUS?

Regarding your article "Who's minding the gun counter?" (Legal Affairs, Oct. 25), Kmart Tampa store manager Mike Rogers says: "Their biggest problem is that they're an attraction to a stop hunting shop. We have to do what we have to do to get business in the store."

Hello? Anyone home at Kmart? Guns are loss leaders in a family retailer? What are you thinking here? What happened to ethics in managerial decision-making?

Dan Wardlow
San Francisco

I would like to ask: "Who's minding the writers, lawmakers, and ourselves?" First, you can't seem to remember what kind of weapon Thomas Thomas purchased. In the second paragraph, he bought a rifle; in a mid-article reference to the store where he bought the weapon, it somehow becomes a shotgun. If we are going to be informed, let's have the correct information.

What's wrong with our lawmakers? They repeatedly violate the law, don't follow procedures, or fail to keep records, etc., why not revoke their permits to sell firearms?

Last, but most important, what's wrong with ourselves? When did we stop becoming responsible for our own actions? Why is everyone else responsible for what happens to us? If someone shoots me with a gun, that doesn't make the seller of that gun responsible for the person who misuses the gun.

Rick Sage
Cincinnati

How ridiculous. Do we sue my car dealer for selling an automobile to a drunk who kills someone on the highway? I charge the manufacturer as responsible for the mishap?

David H. Hudson
Bloomfield, N. Y.

I would like to see the government require all guns manufactured or sold to have a gun-locking device attached. This

would in no way prohibit any person from purchasing a legal gun but would make unauthorized use much less common. Making the owner responsible for properly safeguarding the weapon will go a long way toward preventing the many accidental shootings that take place in this country.

If a burglar steals a gun, the owner would be required to report the theft to local police within 48 hours. Not reporting on time would bring liability for any criminal activity in which that gun might play a part. Such liability would be a strong incentive to ensure that the gun is secured and would help to reduce the availability of illegal guns on the street.

George Kleiner
Union, N. J.

FYI: GEORGIA IS BIGGER THAN MASSACHUSETTS

In your story "More jobs—but they're nothing to get worked up about" (Business Outlook, Oct. 25), you have listed "Joblessness in the 11 largest states." "Largest" is not the superlative to be used here, as Georgia is the 11th-largest state in the Union, according to the 1990 census. Massachusetts is now the 13th.

Just thought you'd like to know that some of us actually read the small print.

Paul H. Christian
Duluth, Ga.

FOILING THE ALUMINUM GLUT

Your article "Suddenly, there's aluminum everywhere" (Top of the News, Oct. 25) correctly describes the situation caused by increased Russian exports because of the collapse of that country's aviation and defense industries. Negotiated cutbacks in production, as described in the story, are one way to deal with the problem.

Another, more positive, approach is the development of a civilian aluminum-processing industry that will utilize the capacity of local smelters to produce much-needed products for the domestic market.

The Trade & Development Agency (TDA), an independent U.S. government agency, is supporting this effort by providing partial funding for feasibility studies on several aluminum-processing projects in Russia. The construction of the projects, such as Reynolds' plans to produce aluminum wheels at a smelter in Siberia and aluminum foil in St. Petersburg, will involve the export of U.S. goods and services and create jobs here at home.

In addition, the projects will divert aluminum ingots from an already glutted world market, thus assisting U.S. pro-

ducers, including Reynolds and Alcoa.

Daniel D. Stein
Regional Director

U.S. Trade & Development Agency
Washington

'A VICTORY FOR PRICE-FIXING'

If that Arkansas judge had really been "the consumer's best friend," he would not have awarded damages against Wal-Mart on Oct. 11 ("An unkind cut from Wal-Mart," In Business This Week, Oct. 25). Lower prices are just as important to consumers as the preservation of competition. The judge's action will instead ensure higher pharmaceutical (and other) prices as all retailers attempt to conform to Main Street prices to avoid litigation. The consumer is merely guaranteed a choice in where to pay them. This was more a victory for price-fixing than for competition or the consumer.

Karen DeLuca Katchmeric
Annandale, Va.

HELPING BUSINESS WITH SALES AUTOMATION

Your story "Taking a laptop on a call" (Information Processing, Oct. 25) presented an excellent summary of why companies large and small are supporting their sales process with automation.

Driving out waste, increasing quality, improving service, decreasing cycle times—efforts such as these have dramatically improved productivity in the manufacturing arena in the past decade. Your readers may be interested in knowing there is a nonprofit professional association—the Sales Automation Assn.—dedicated to helping its members achieve the same results in sales, marketing, and customer service.

Improvement in the sales process is long overdue in most organizations. The next few years will see nothing less than a revolution in the way this side of business is conducted.

Rebecca Drake-Steele
Managing Editor
Sales Automation Assn.
Dearborn, Mich.

THIS REALITY CHECK BOUNCED

In your "Reality check" (Up Front, Oct. 25), you trivialize the questioning of Frank Lorenzo's being granted a franchise to operate another airline. I suggest you reread this man's business history as recorded in your own publication over the years. His business style has been to operate wide of the boundary that defines ethical behavior for most businesspeople.

He does have a record that is of ma-



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Readers Report

terial interest to the public. It ought to be examined. To paint a picture of poor Frank as the victim of a silly administrative law judge and vindictive unions isn't reality.

William M. Ferrell
Mount Vernon, N.Y.

LET'S NOT FORGET THE BALANCE OF AUTO TRADE

It's good to see U.S. journalists dealing with Japan's chronic trade surplus with the U.S. Neil Gross's International Business commentary, "Cracking Japan Without targets, it's just talk" (International Business, Oct. 25), explained well the need for clear quantitative and qualitative targets in the ongoing negotiations. The almost \$500 billion U.S. trade deficit with Japan in the past 10 years represents the greatest shift in power and wealth between two countries in history. It would have been good if your article had included some automotive data. Japan's auto surplus with the U.S. has remained at \$31 billion-\$33 billion per year regardless of currency movement, strength or weakness in the respective economies, or other variables.

Albert M. Chamberlain
Director, Corporate Communication
Ford Motor Company
Dearborn, Mich.

KAIZEN IS A BUNCH OF BASE HITS

I have just finished reading "Improving the soul of an old machine" (Industry, Oct. 25) and want to offer the following comment.

American managers are beginning to understand that *kaizen* is the process of incremental improvement. It relies more on the quantity of improvements than the quality of improvements. Lots of little ideas have the same value as one big idea. *Kaizen* doesn't involve dramatic and immediate change initiated by a singular company hero. *Kaizen* is slow but steady transformation brought about by lots of ordinary employees working together to make lots of little improvements. Bringing American factories up to world-class standards takes a team of reliable base hitters rather than the occasional home-run hero. To make *kaizen* work here, American companies will have to realize that four base hits are just as good as one home run.

Mark O'Brien
Newnan, Ga.

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HITACHI

HEALTH CARE HAS A BAD CASE OF 'COST DISEASE'

BY ROBERT KUTTNER



Severe inflation is endemic in labor-intensive services. So some form of restraint on medical costs—such as Clinton's plan aims to provide—is needed

William J. Baumol is one of those rare economists whose predictions have been borne out by events. His most famous insight, known as "Baumol's Disease," says that because productivity in the service sector tends to lag behind productivity in manufacturing, costs in services relentlessly rise (BW—Nov. 16, 1992). His favorite example is a Mozart string quartet. While productivity in transportation, manufacturing, communications, and agriculture has increased manyfold since 1791 (the year of Mozart's death), string quartets still require four musicians and four instruments and still take the same time to perform.

In the 27 years since the Princeton University economist first noted this productivity gap between services and manufactured goods, experience has shown that it holds true in any service that is inherently labor-intensive: education, law enforcement, lawyering, repair, restaurant services, child care, social work, and health care. Of course, what makes Baumol's Disease newly relevant is health-care reform.

In health care, the import of Baumol's work is double-edged. On the one hand, if the effect of the disease in services is relentless and inevitable, there's nothing much to be done. Baumol himself has warned against using price controls to rein in medical costs. Moreover, Baumol says, unlike productivity-increasing technologies in industries such as banking or insurance, new technologies in health care typically add to costs and consume more of the doctor's time.

VIRULENT STRAIN. On the other hand, the present health-care market is uncommonly inefficient. Consumers have scant market power and most bills are paid by third-party insurers. Incentives operate perversely to raise costs well beyond the inevitable Baumol trajectory. Health care is such an imperfect market that some forms of market structuring could decrease administrative inefficiencies and lower the rate of medical inflation. And absent reform, cost containment is indeed likely to be care containment. While Baumol's Disease may be an epidemic, the medical system has caught a particularly virulent strain.

There are two profound implications of Baumol's Disease—or Cost Disease, as he prefers to call it. First, as the U.S. increasingly becomes a service economy, overall productivity growth is likely to slacken. Better machines can reduce the labor cost in production of automobiles, but measured productivity of, say, teachers, nurses, ministers, or social workers is not likely to increase over time. Second, as these professionals expect their living stan-

dards to rise along with everyone else's, despite their stagnant productivity, costs in these sectors will steadily rise relative to other costs. Thus, the real, inflation-adjusted cost of a ton of steel has fallen dramatically in the past four decades, while the real cost of college education or a hospital bed has outstripped inflation.

HUGE CHUNK. Baumol has calculated that since 1948, education expenditure per student has increased at nearly five times the general rate of inflation; doctors' fees at about double the rate of inflation; and hospital costs at seven times the rate. Extrapolating these trends, Baumol projects that in 2040, education will consume fully 29% of gross national product (compared with 6.7% in 1990), and health care a staggering 35% of GNP—more than triple the 1990 proportion. Obviously, not all services can increase their share of GNP, so some will have to be reduced.

To be sure, Cost Disease can be exaggerated. Many technological advances in manufacturing do spill over into services. One example: Economists once projected that half the labor force would be required to handle the anticipated volume of phone calls—but automated switching led to phenomenal productivity gains and diminishing human labor in the quintessential service industry. The same effects have occurred in the back offices of banks, insurance companies, and other service industries that use computers. Even in the arts, millions of people can now hear Mozart cheaply via television and radio—though it would cost them plenty to hear the music performed live.

Reading Baumol's writings on health care, one can detect a subtle evolution in his view. In his earlier writings on medical and hospital costs, Baumol saw a certain inevitability in rising prices, driven by Cost Disease, generally combined with technology and demographic shifts. Baumol warned that government intervention would likely make things worse. Recently, as hospital costs have continued to rise at three or four times the inflation rate, Baumol has become a reluctant convert to some form of cost restraint, though not without ambivalence. He believes the Clinton plan of managed competition and indirect cost control is preferable to direct price regulation, since Clinton's program uses market mechanisms.

Baumol now believes that health-care costs are inflating at such a rate that to do nothing would court even more irrational forms of cost control, with severe consequences for medical care. Even though the affliction of services cannot be entirely cured, it is still worth treating.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE

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The future has never looked better. Without a doubt, the new Accord Sedan from Honda is more aerodynamically beautiful than ever. A classic combination of form and function.

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Testing showed how changes in the body's internal structure could reduce road noise. So we added high-tech baffling materials. It's very quiet.

To make the Accord stronger, we reinforced the outer body panels with thicker steel and we added steel beams and pads inside the doors. It is easy to see why the new Accord meets the federal side-impact standards for 1997, three years early.

While we're on the subject of safety, you'll find that driver's and front passenger's airbags SRS are standard. The Accord EX, here, even includes a refined anti-lock braking system (ABS). Which, of course, is also available on the LX and DX models.

The compact 2.2 liter, 16-valve

engine in the new Accord will be a topic of engineering lectures for years to come. The version in DX and LX models produces 130 horsepower, while the EX model develops 145 horsepower, the most ever in an Accord. Both are

After computer analysis of how our automatic transmission shifted, our engineers designed a new transmission so smooth and quiet that you will hardly notice when it changes gears.

A computer inside the new



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You'll find a new version of our Variable Valve Timing and Lift Electronic Control system (that's VTEC for short) increases both power output and fuel efficiency in the Accord EX engine.

Accord's transmission uses an advanced Grade Logic Control System that can detect special driving situations, such as hills and stop-and-go traffic. Automatically it then changes the transmission shift points for the best possible performance. For example, it knows when the Accord is going uphill and shifts to third gear for more pulling power.

se is history.

Grade Logic is smart enough to know the difference between up and down, too. When going downhill, it downshifts to help control your speed. Which adds a higher level of refinement and further driving enjoyment.

well. Their concave design frees up more knee room for those passengers riding in the back. Up front, a padded center armrest with storage is ideally positioned for driver and passenger comfort in the new Accord.

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A Car Ahead



On the inside, you'll find the car is warm and inviting, with pleasing textures and soft, plush fabrics. A rich, leather-trimmed interior is available on the Accord EX model, naturally.

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The new instrument panel is a model of intelligent design and layout. It gracefully wraps around the interior and is darker on top to reduce irritating glare. Gauges are large and easy to read. And switches are right where they should be. The center console is slanted to improve your access to heater and ventilation controls and audio components.

Economic Trends

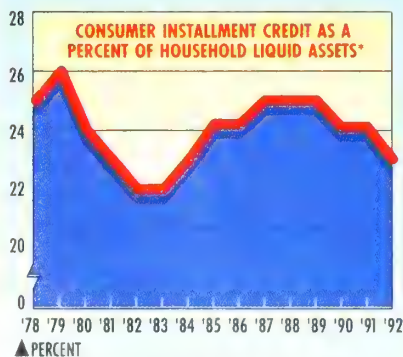
BY OWEN ULLMANN

CONSUMERS STILL HAVE PLENTY OF BORROWING POWER

A major reason why the current expansion is so lackluster, many economists believe, is that households got too deeply into the red during the easy-credit 1980s. Now, the story goes, chastened consumers are unwilling—or unable—to borrow more, putting a damper on economic growth.

Both of these pieces of conventional wisdom are disputed by Michael E. Staten, head of Purdue University's Credit Research Center. "The household debt buildup of the 1980s and the debt pay-down of 1991-92 have been overstated," Staten contends in a new report for Capital Markets Assurance Corp., an insurer of fixed-income securities. True,

CONSUMER DEBT IS UNDER CONTROL



*CHECKING, SAVINGS, AND MONEY-MARKET ACCOUNTS
DATA: PURDUE CREDIT RESEARCH CENTER

there was a significant buildup of consumer debt during the '80s, but not because credit was out of control. Instead, explains Staten, consumer debt grew because demographic changes led to millions of new households becoming borrowers for the first time. Moreover, lenders were willing to extend credit to more people, in part because of improved methods of assessing credit risk.

Consumers were also in better shape to borrow than commonly realized, argues Staten, because their personal liquid financial assets were growing as fast as their new debt. Consumer installment credit as a percentage of household liquid assets was at the same level in 1990 as it was in 1985, and it never reached the 26% peak seen just before the 1974 and 1980 downturns (chart).

Staten believes that households will not be timid about continuing to take

on new debt. Rather, they will get more sophisticated about how to use credit. Consumers have been flocking to home-equity loans in recent years, lured by the advantages of lower aftertax interest rates. That's why home-equity credit soared 75%, to \$469 billion, between early 1988 and the third quarter of 1992—notwithstanding the intervention of a recession. And Staten predicts this trend will only accelerate because of the higher personal income tax rates Congress passed last summer. If he's right, this is good news for an economy dependent on consumer borrowing and spending for much of its spark.

THE HEALTHY NUMBERS ON CAPITAL SPENDING MAY BE DECEIVING

A sharp increase in capital-equipment spending—16% over the past year—has been one of this recovery's brightest spots. But the capital stock may not be growing as quickly as the large spending gain suggests. Computers now account for 25% of capital-equipment purchases, up from 5% a decade ago. And computers have to be replaced much sooner than most other equipment, such as machine tools, because new technology makes them obsolete faster. Federal Reserve Board Chairman Alan Greenspan notes that the average life expectancy of capital equipment was 14.5 years in 1992, down from 16.5 years in 1982 and 17.4 years in 1972. He attributes the change to computer-related equipment, which normally lasts no more than eight years, only one-half to one-third the life span of machine tools.

Business regards its spending on computers as an investment in productivity. But Fed analysts worry that the calculations of business planners may not take fully into account the speed of obsolescence of computers, which raises their long-term costs because they have to be replaced sooner than planned for. That raises the distressing possibility that replacing lower-tech but more durable equipment with the latest high-tech wonders won't improve the bottom line as much as companies think.

U.S. ECONOMIC WOES: WE HAVE MET THE ENEMY, AND...

Since 1973, when U.S. growth and standard of living began to stagnate, politicians and economists have blamed the economy's problems in good part on

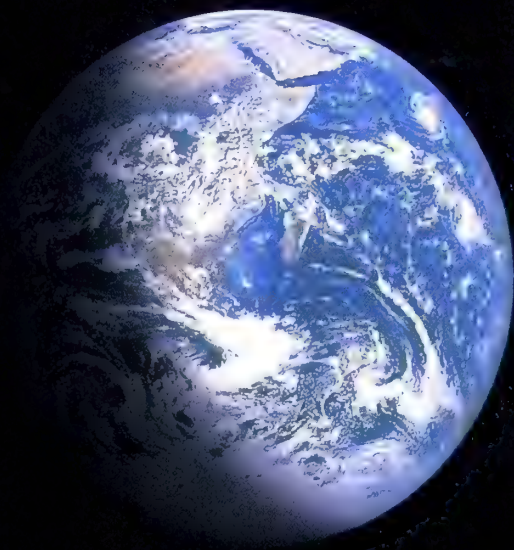
the rise of international trade and the uncompetitiveness of U.S. industry. But the global economy may be just a scapegoat for domestic problems only slightly affected by changes beyond our border.

In a study for the National Bureau of Economic Research, economists Paul R. Krugman at Massachusetts Institute of Technology and Robert Z. Lawrence at Harvard conclude that the source of U.S. difficulties are "overwhelmingly domestic." Analyzing data covering the past four decades, they contend that the shrinking manufacturing base cannot be attributed to increased foreign competition. Instead, they maintain, technological advances—not a flood of cheap goods from abroad—led to an increase in manufacturing productivity and resulted in a decline in manufacturing employment. This trend especially affected low-skill workers, who either lost their jobs or saw their real incomes take a beating. The Krugman-Lawrence analysis suggests that the passage of the North American Free Trade Agreement will have scant impact on the U.S. economy—good or bad.

CAN GAMBLING SOLVE STATE FISCAL PROBLEMS? DON'T BET ON IT

Given voters' universal resistance to higher taxes, state governments have been turning more and more to legalized gambling as a painless way to raise badly needed revenues. The problem with this approach: It's painless because it barely pinches any purse. Lotteries, casinos, and off-track betting just don't raise enough money to reduce a state's reliance on other taxes or solve a serious budget problem, according to Steven D. Gold of the Rockefeller Institute of Government at the State University of New York. Gold says lotteries, now legal in 37 states, yielded \$7.6 billion in 1991, only 3.2% of total revenues for those states. That figure does not reflect lost sales or excise taxes because people who gambled had less money to spend on other taxable items.

Casinos are the latest fad. Including those on Indian reservations, they operate in 19 states. But they account for a sizable share of revenue only in Nevada (about 50%). In New Jersey, by contrast, casinos bring in less than 4% of total state revenue, says Gold. And pari-mutuel revenue from horse and dog racing and jai alai has fallen because of increased competition from lotteries. The bottom line for politicians: If you need to raise revenue, you'll have to do it the old-fashioned way—by hiking taxes.



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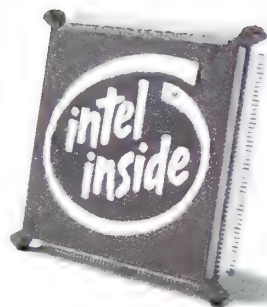


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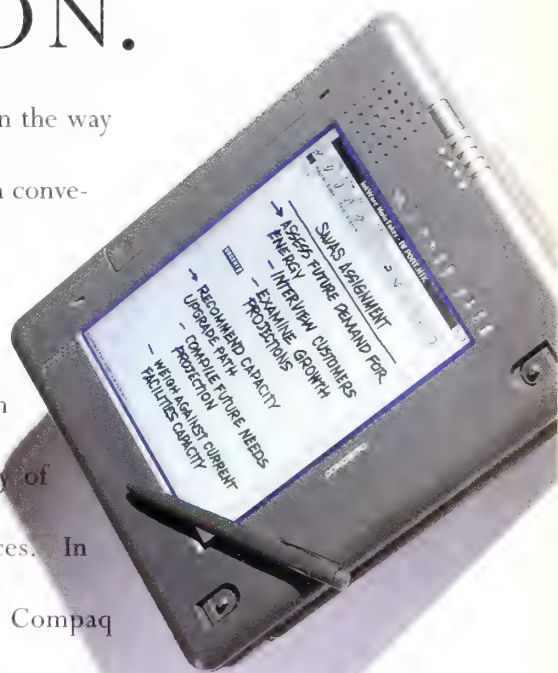
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THE MOST POWERFUL BANK: INSIDE GERMANY'S BUNDESBANK

By David Marsh

Times Books • 331pp • \$25

THE HOUSE THAT FEAR BUILT

When I was growing up in New York, my mother, who had left Poland in 1929, would try to convey to me our relative well-being by evoking one of the ghastlier images from post-World War I Europe: desperate Germans lining up to buy bread, their worthless marks overflowing the wheelbarrows that they had pushed to the baker's and that had become the emblem of the country's swollen money supply.

Of course, the story had a darker side. As hyperinflation peaked in 1923, leaving the mark worth one-trillionth of its 1913 value against the dollar, young Adolf Hitler rose to prominence when he was arrested for trying to lead his storm troopers in a march on Berlin.

Germany's Bundesbank finds it useful to keep alive in the public psyche the tragedy that engendered its anti-inflation creed, observes David Marsh in *The Most Powerful Bank*. As Europe's predominant central bank and the one most directly confronting the economic shocks of the cold war's end, the Bundesbank is under fire. North America and Asia worry that its obsession with inflation will plunge the world economy into depression. Germany's neighbors watch warily to see if Bundesbank policies will destroy 40 years of effort to unify Europe.

Given such drama, it's too bad Marsh has produced a largely historical work that suffers from repetition and a tendency to jump around in time. It's a slog through his slow account of precursors to the Bundesbank, which was formed by law in 1957. In fact, it's surprising that readers in Europe, where the book was published last year to wide attention, hung on past the opening sentence, which intones: "As a target for investigation, the Bundesbank fulfills a great many supremely appropriate criteria." Still, as a portrait of a dimly understood institution certain to be increasingly at the center of the global economy, the book is timely and worthwhile.

Marsh, European editor for the *Financial Times*, details well the Bundesbank's role as a last bastion of anti-inflation rectitude. The bank's headquarters, tellingly located at a distance from downtown Frankfurt's commercial bank towers, drives home the point as bluntly as any Bundesbank official could. While the U.S. Federal Reserve sits behind marble columns, the concrete Bundesbank building, Marsh writes, has all the visual appeal of a "high-rise Holiday Inn or a long-stay sanatorium." While cherubs grace the ornate ceilings

its way through the monetary shoals of the 1990s, the Bundesbank will draw upon flexibility and resilience in equal measure."

Marsh hits his stride with insight into the bank's political maneuvering, particularly since German unification. Three German Chancellors, including Helmut Schmidt in 1982, can lay the downfall to Bundesbank actions. Marsh also blames the central bank for economic growth rates in Germany that since 1970 have been lower than those of most other industrialized countries. The price of currency stability may have been less for Germany than for more inflation-prone countries, but a price has been paid all the same.

Marsh finds clear limits on both the bank's clout and its legendary independence from government influence. At the time of unification, he notes, the Bonn government ignored Bundesbank warnings that instituting one-for-one parity between the West and East German marks would destroy East German industry. To make matters worse, Chancellor Helmut Kohl announced the parity move without even informing Karl-Otto Pöhl, then the Bundesbank's president. Marsh's detailed and definitive treatment of the urbane Pöhl's subsequent resignation is a highlight.

What's next for the institution that could well eclipse the European Community as post-cold-war Europe's most powerful? A major disappointment is Marsh's failure

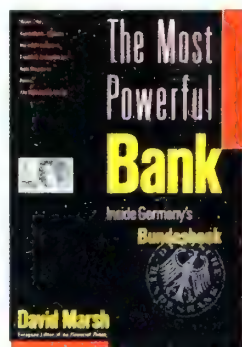
to update the U.S. edition with an analysis of Bundesbank activities in the turbulent year just past—which in August led to the effective collapse of Europe's system of managed exchange rates.

And given the primacy of personal chemistry in money politics, he misses not probing the personalities moving the bank today. Of Hans Tietmeyer, the Bundesbank's new president and likely leader for most of the rest of the '90s, there's little more than a perfunctory biography. There's also little on the other men on the 16-member policy-making council that every two weeks meet to decide Europe's interest rates—about its economic future. The world will be hearing a lot more from these central bankers in the years ahead. I would have liked to get to know them better.

BY BILL JAVETSKI

Javetski is *BUSINESS WEEK's* Europe economics correspondent.

Marsh observes
that the Bundesbank
finds it useful to keep
alive the memory
of 1920s hyperinflation



of the Banque de France, there's not an Old Master to be found in the Bundesbank. Yet such respect does the guardian of the German currency command that the Bundesbank president's salary is \$420,000, more than triple that of Fed Chairman Alan Greenspan.

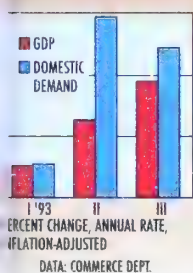
Two decades of remarkable German economic success, Marsh reports, have made the Buba enormously influential. Insistence on Bundesbank-style *Stabilitätspolitik* "now forms the core of international economic policy...enshrined in a thousand summit communiqués and ministerial declarations." Bundesbank officials are the "evangelists of world finance." No wonder they often seem self-righteous, even arrogant.

Marsh is most illuminating in dispelling the myth of the Bundesbank as a monetarist monolith. Pragmatism, he says, is one of the central bank's most important characteristics. "In steering

THE SECOND-HALF SPARKS COULD FLY INTO '94

Weak first half, strong second half. Sound familiar? If it does, don't worry. You have good reason to feel a strong sense of déjà vu about 1993 economy compared to the 1992 version. This time, however, the second-half pickup reflects broad improvement in the fundamental forces that drive growth. It means chances are good that the economy will maintain a healthy pace right into 1994. The key difference between this year and last is the strengthening of the supports under domestic demand. A drop in long-term interest rates, better job growth, solid gains in household income and corporate profits—amid low inflation—are the fuel feeding the current pickup in output. The pep is even spreading to the depressed factory sector, and looking ahead, Corporate America generally is cautiously optimistic (page 36).

WHERE THE ECONOMY GETTING ITS FUEL



the like—which Commerce did not measure—the pace would have been closer to 4%.

The good news for coming quarters is that the gains in GDP, in both the second and third quarters, have been concentrated in domestic demand (chart). For example, since the first quarter, real consumer spending has risen at a 3.8% annual rate. Outlays for business equipment are up at a 14.2% pace. And new housing, after lagging in the second quarter largely because of the earlier winter, posted a 10.1% advance last quarter.

THE TRADE GAP YAWNS EVER WIDER

Those three sectors of demand—some 80% of GDP—showed improvement in each month of the quarter, and they began the fourth quarter on a high plane with no apparent loss of momentum. That bodes well for their contribution to growth this quarter. Real GDP seems capable of growing at a 4% rate. Indeed, the economy's latest tea leaves look undeniably bright. New home sales exploded in September. The leading indicators for September rose 0.5%, following a

0.9% advance in August, and early October readings point to another gain. Also in October, the nation's purchasing managers reported a significant pickup in the manufacturing sector, and sales of cars and other consumer goods continued to look healthy.

The Federal Reserve Board's latest regional survey of economic activity through Oct. 26 noted the staying power of shoppers. Consumer spending continued to rise in most regions, said the report, "with particular strength noted in sales of autos and other durables."

Of course, the economy is not without drags. Domestically, the biggest is defense. Demand by the military dropped at an 8.3% annual rate last quarter, and it has fallen 8.8% during the past year. That decline has subtracted 0.6 percentage points from annual GDP growth.

And looking abroad, exports are no higher in the third quarter than they were at the end of 1992, while imports have surged. The trade gap yawned some more in the third quarter, by \$4.9 billion, to \$80 billion, and the widening during the past year has lopped another 0.7 percentage points off economic growth.

But even amid these drags, domestic demand has risen 3.6% from a year ago. That strong pace highlights the power that outlays by consumers, businesses, and homebuilders are supplying to the economy.

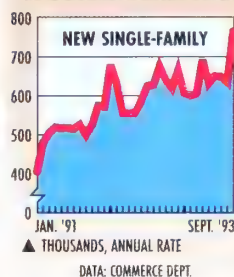
HOUSEHOLD GOODS SELL LIKE HOTCAKES

Homebuilding is providing an especially big boost right now. That much was evident from the 20.8% surge in sales of new single-family homes in September, to an annual rate of 762,000 (chart). That was the highest sales level since December, 1986, and the monthly advance was also the largest in seven years.

The gain was even more impressive, given that sales levels in both July and August were revised higher and given that the median price of a new home continues to rise. Prices were up 1.3% in September, to \$129,000, which is 7.9% above the year-ago level, suggesting that home buyers are not just bottom-fishing.

Better sales assure more building. Contractors have been adding new homes to the market this year, after the inventory had dwindled for two years. But at the September sales rate, the stock of unsold homes shrank to a supply of 4.9 months. That's historically low, and the

HOME SALES SOAR TO A SEVEN-YEAR HIGH

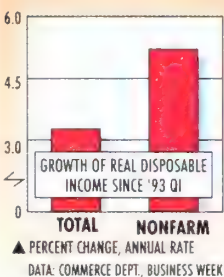


Business Outlook

supply has been skimpy for an unusually long time.

The pickup in home buying is also helping growth in other areas of the economy—especially consumer spending. Inflation-adjusted outlays for consumer goods and services rose 0.3% in September, and for the third quarter, they were up at an annual rate of 4.2%. Spending on furniture, appliances, and other household goods was a key contributor. Since March, sales of such items have shot up at a 17% annual rate.

FARMS HAVE SKEWED INCOME GROWTH



Consumer buying is getting a triple kick from low interest rates, solid income growth, and more buying power because of low inflation. In particular, growth in real aftertax income last quarter was actually better than the 1.1% annual rate reported in the GDP numbers. Excluding the farm income washed away by the flood, real income rose at a 2.8% annual rate, fol-

lowing a 7.5% advance in the second quarter.

In fact, during the past two quarters, real nonfarm income has risen at an annual rate of 5.2% (chart), much faster than the 3.8% pace of consumer spending. That divergence suggests that consumers were in good financial shape heading into the fourth quarter.

ASSEMBLY LINES BEGIN TO LOOK ALIVE

The dividends of demand growth are beginning to show up in manufacturing. For one thing, carmakers had allowed dealers' inventories to shrink for two consecutive quarters, which many dealers paid for in lost sales. However, car buying revived in October, and economists estimate that the combination of better sales and a rebound in auto output this quarter will add about 1.5 percentage points to fourth-quarter growth in real GDP.

Gains in auto production and home buying, with their

broad impacts on other industries, are the main reason why the factory sector is looking healthier. The purchasing managers' index, a composite of industrial activity compiled by the National Association of Purchasing Management, jumped to 53.8% in October, from 49.7% in September. The rise marks the first improvement in manufacturing after four months of decline.

A jump in new orders led the advance, says the NA. The new-orders index rose to the highest level since January (chart). Moreover, industries reported increases in their backlog of unfilled orders. And the pace of production picked up for the fourth month in a row.

One problem, though, is manufacturers' continuing reluctance to add to their payrolls. Even companies outside manufacturing are squeezing every ounce of productivity from their existing work forces to lift output. So far, the strategy is paying off on the bottom line: Corporate profits last quarter rose 26% from a year ago, according to BUSINESS WEEK's latest tally (page 122).



Because of productivity gains and slower growth in wages and benefits, unit labor costs throughout the economy are rising more slowly than prices. That means even in a disinflationary economy, profit margins in corporate America are rising. Better earnings are a large reason why companies are investing heavily in new equipment and technologies.

So with demand on firm footing, that unsettling feeling that the past is repeating itself should eventually fade away. Amid all the uncertainty about health care, tax, and more corporate restructuring, the economy may be able to sustain the snappy 4% pace that looks possible this quarter. However, growth is unlikely to swoon in the first half of 1994 the way it did in 1993.

THE WEEK AHEAD

PRODUCER PRICE INDEX

Tuesday, Nov. 9, 8:30 a.m.

Producer prices for finished goods are expected to have posted a 0.3% increase for October. That's the median projection of economists surveyed by MMS International, a unit of McGraw-Hill Inc. The September PPI had risen 0.2%, following three consecutive declines. Energy prices are expected to lead the advance, reflecting both the gas-tax increase that went into effect on Oct. 1 and new regulations for oxygenated fuel. Food prices likely fell. Excluding energy and food, the core index is expected to rise only 0.1%. And although carmakers raised sticker prices, the hikes were less than typical, so that seasonally adjusted car

prices probably fell. During the past year, core PPI inflation has fallen to about 0.5%, the slowest pace since the early 1960s.

CONSUMER PRICE INDEX

Wednesday, Nov. 10, 8:30 a.m.

The MMS survey shows an expected 0.4% gain in the October consumer price index, following no change in September. However, as in producer prices, the impact of higher energy costs will add a considerable boost. Excluding energy and food, the economists look for the core CPI to rise a tamer 0.2%. If the projections are right, the annual rate of inflation in consumer prices will slip to 2.7%, and the core rate will fall to 3%, the slowest pace in more than 20 years.

RETAIL SALES

Friday, Nov. 12, 8:30 a.m.

Retail receipts probably posted a healthy 0.8% jump in October, says the MMS survey. That would follow a 0.1% increase in September, and it would be the strongest advance in a series of six consecutive gains dating back to April. Weak auto sales, the result of skimpy inventories, had depressed the September tally, but a rebound in car buying will provide much of the October advance. And weekly surveys of store activity suggest that sales elsewhere were strong as well, especially purchases of house-related goods. Some of the October advance, however, will reflect higher prices, mainly at gas stations.

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KODAK: SHOOT THE WORKS

FISHER'S MULTIMEDIA VISION FOR THE GIANT IS AS RISKY AS IT IS SEDUCTIVE



Within hours of being named Eastman Kodak Co.'s new chairman, George M. C. Fisher offered a distinctly rosy view of his new company's prospects. Downplaying the need for radical cost-cutting, he told reporters on Oct. 28 that there still is plenty of growth in Kodak's core business. More telling, however, was the chairman's entrancing vision of the company as a key player in the emerging multimedia world: Kodak, he declared, is "an important part of the Information Revolution.

I think the prospects are limitless."

Turn back the clock a few years, and the speaker could have been Kay R. Whitmore, Fisher's discredited predecessor. Indeed, Whitmore spent much of 1990 and 1991 heralding Kodak's bright prospects in digital imaging. Meanwhile, the CEO kept postponing cost-cutting in the mistaken belief that growth would return to the company's core photography business.

On Dec. 1, Whitmore will be unemployed—essentially because he stuck to that strategy until it was too late. Kodak investors, unhappy with a corporate icon

whose 1992 profits barely matched those of a decade earlier, had been clamoring for change. The company's directors listened and added Whitmore to the crowd of CEOs cast out in a year of turbulent blue-chip shakeups.

TECHNO-GIANT. In embracing Fisher's Whitmore's unexpected success, though, Kodak's board has signaled a return to something akin to Kodak's earlier growth-oriented strategy. Fisher, hardly the slash-and-burn type some outsiders had pressed for. Indeed, he appears to be laying a high-risk bet from the start that he can succeed where others

Kodak executives repeatedly failed. It's not that Fisher doesn't have the talent. Business gives him high marks as a manager and a technologist. "He's a wonderful choice for Kodak," says an executive at Sculley, Apple Computer Inc.'s recently departed chairman. "It's a terrific opportunity for them." Indeed, Fisher brings an impressive track record from Motorola, where as chairman since 1990 he

oversaw a doubling of the company's profits. "Anybody can do it," says George Fisher, "as James F. Moore, a Cambridge (Mass.) consultant who has worked with Motorola."

But can anybody do it? Remaking Rochester, N.Y.-based Kodak into a digital-age superstar is hardly a sure thing. There's no question Kodak has superb technology that could be applied to everything from electronic cameras to thermal printers to multimedia home publishing systems. Yet Kodak's culture hasn't been able to successfully advance from the analog world of chemical photography to the fast-moving electronics world. Its marketers don't fully understand the new technology, its manufacturing costs are too high, and it hasn't developed the short product cycles of successful electronics makers.

Fisher has correctly perceived a major opportunity," says Lawrence J. Matteson, a former high-level Kodak executive who now teaches business at the University of Rochester. "But Whitmore perceived the real opportunity, and the company isn't able to deliver." Fisher's vision is worth pursuing, concludes Matteson, but it's a high-risk vision.

MOTOROLA MODEL. Some Kodak watchers wish Fisher would opt for the lower-cost, cost-cutting approach that Whitmore, in an abrupt about-face early this year, seemed ready to embrace. They don't see basic blocking and tackling, just high-tech phantasms. "Much of what he's said, if it came out of anybody else's mouth, would have sent the stock

down," says B. Alex Henderson, an analyst at Prudential Securities Inc. "If he makes the same growth-oriented assumption [as Whitmore], he's doomed to the same failure." That feeling is echoed by a longtime Kodak veteran: "I hope his comments represent naivete rather than firm strategy."

Fisher's initial upbeat assessment of Kodak's situation may have been aimed

at its focus: how Kodak could become a key player in the digital age. "It was a pretty exciting vision," says Frank P. Strong Jr., former general manager of Kodak's Commercial Imaging Div., who worked on the plan. It called for Kodak to give up its ambivalence about replacing traditional photography with digital imaging and to invest heavily in key electronics technologies, as well as the

associated manufacturing and marketing structures.

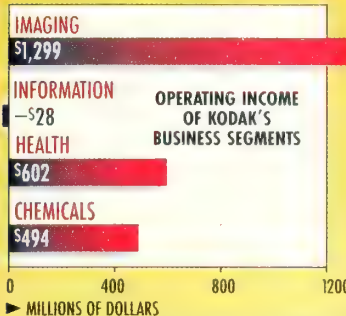
"SILENT VETO." Insiders say the vision was embraced by Whitmore. But the strategy withered almost as soon as it was presented at a mid-1991 worldwide management retreat at Niagara-on-the-Lake, Ont. "You had what we call in Kodak a silent veto," says Matteson. "People thought it was too big a risk, that we didn't have the skills to succeed." Meanwhile, Kodak's operating results were deteriorating, and insiders say Whitmore downplayed the long-term vision in favor of restructuring and other short-term goals.

Can Fisher resurrect that earlier strategy? C. K. Prahalad, a University of Michigan business professor who played a key role in shaping Kodak's 1990 strategic plan, sees "extraordinary growth potential" down the road. Multimedia, he says, "has to be user-friendly. Images are the most important part, and color images are the way

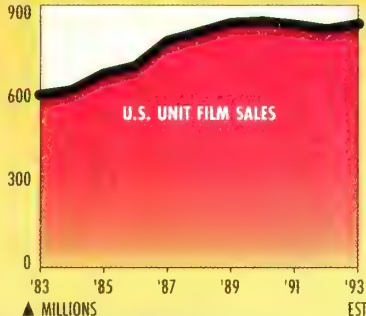
of providing esthetics. This company dominates images." What Kodak was missing in the Whitmore years, says Prahalad, "was a senior management team that understood the direction of software and hardware electronics."

It's understandable that Kodak's old management was equivocal about digital imaging. Kodak executives like to think of imaging as a chain, a series of steps in which images are captured, stored, manipulated, transmitted, and displayed. In traditional photography, images are captured with a camera, stored on negatives, and printed on paper. That process

PHOTOGRAPHY IS CRITICAL TO KODAK...



...BUT THE MARKET HAS TOPPED



Kodak sees a future where it could be commonplace for students to use pictures in term papers or families to create holiday cards using digital photos at home



as much at Kodak's dispirited employees as at investors. "There was a fear that Attila the Hun would be coming in," says Peter M. Palermo, a senior marketing executive in Kodak's imaging division who will retire Dec. 1. "People are relieved. There's a sense of enthusiasm. If you focus, people will understand the context in which costs will be cut." Indeed, Fisher likely will pare costs by following the Motorola model of refocusing the company on efficiency.

But Fisher also may want to dust off a secret 1990 strategic direction plan that Kodak spent 18 months developing.

hasn't changed much in the 113 years since George Eastman started Kodak. And Kodak gets fat profits from selling photographic film and paper.

In the late 1970s, Kodak managers perceived that digital imaging could radically change all that. Images could be captured with digital cameras, stored on computer disks, sent over phone lines, manipulated with software, and finally printed out. Presto—no more film, no more paper, no more Kodak profits. Ko-

But so far, the bulk of Kodak's technology remains trapped in the lab. Most of its electronic offerings have been poorly coordinated and without much market impact. An \$8,500 all-digital camera grafted onto a Nikon body, though first-class, has sold to only a few professionals. An electronic publishing system called KEPS has been struggling, and doesn't yet link into Kodak's Photo CD standard. "Kodak has a lot of the pieces of the puzzle, but they're not con-

nections, particularly in the publishing arena.

Fisher's challenge: to convert this grab bag of offerings into a coherent strategy. The new CEO will find that Kodak scientists and marketers are bubbling with ideas, including a home thermal printer that connects to a digital camera and a Photo CD player. Push a button, and out comes a copy of your image. With future technology, it could be commonplace in a couple of decades for high school students to electronically incorporate pictures in term papers or for families to create customized Christmas cards using digital photos at home. Even before that, Kodak researchers believe the prospects for electronic images in business are huge. First targets: publishing, slide libraries, real estate, and law enforcement.

TONS OF CASH. For Kodak to play a major role in this digital-imaging future, it will need to slough off its slow-moving chemical heritage. The life cycle of a large photofinishing machine is at least eight years. But electronics is moving so fast that scanners and the like are outdated in 18 months. Consultant Prahallad thinks Kodak should start high-volume production of a low-cost color thermal printer. Doing so would require a different research-and-development, engineering, and manufacturing culture—a huge change on the order of what Xerox Corp. has managed to accomplish in copiers or Hewlett-Packard Co. in laser printers.

Perhaps equally important, Kodak needs marketers who understand the electronics world and its customers. In trying to penetrate the digital world with sales folks accustomed to pitching film and chemicals. Another challenge: finding joint-venture partners who can provide skills, such as manufacturing and technological expertise, in areas Kodak chooses not to compete in. Motorola has been a keen striker of alliances; it's a practice Fisher can bring to inward-looking Kodak, which has tried to do almost everything itself.

The skeptics who say Kodak will never replace the incredible profits from photography with low-profit, high-risk electronics products are probably right. But the company does enjoy the luxury of a photography business that, managed correctly, should throw off tons of cash for years to come to fund new product development. And Fisher, rather than bowing to the inevitable loss of Kodak's photographic business to electronics, seems determined to fight back. Will he rejuvenate Kodak's culture? Can he instill technological discipline? Can he make Kodak's vision work this time?

By Mark Maremont, with Gary McWilliams, in Boston



KODAK'S TECHNOLOGY DILEMMA

Back in 1990, Kodak developed a strategic plan focused on how to become a player in the digital age. What happened?

ITS LABORATORIES ARE HUMMING...

- ▶ Kodak has top-notch technology that captures images electronically and translates them into computer data
- ▶ Its engineers have developed world-leading color thermal printers, which transfer images using heat, bypassing traditional chemical processes
- ▶ Its color-management and manipulation software, which keeps colors true from computer screen to print-out, is big in publishing and printing

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...BUT ITS CULTURE LIMITS RESULTS

- ▶ Managers, used to fat photography profits, have been ambivalent about investing in technology that could cannibalize their core business
- ▶ Top executives, led by former Chief Executive Kay R. Whitmore, have spread investment over too many bets
- ▶ Decision-making, research and development, and manufacturing all work too slowly to compete in markets with short product life cycles

Kodak started frantically spending huge sums on electronics research. But it was faced with a conundrum: Any electronic-imaging products it introduced would cut into lucrative film and paper sales. In the end, it fudged the issue, keeping a hand in digital imaging through research while avoiding being a market leader.

That history has left Kodak with some world-class technology. "The basic knowhow of combining electronic image capture and color management has been Kodak's for years," says Jacques Kauffmann, an imaging-technology consultant. Kodak is a world-beater in electronic sensors—devices that see and capture an image—and has a raft of patents in color thermal printing. It also has the best understanding of color-management computer software, which matches the colors you see on the screen with what's on the printed page.

connected well," says imaging consultant John Larish.

The Photo CD, introduced in August, 1992, has been Kodak's most ambitious electronic-imaging product. The idea is simple: Capture an image using ordinary cameras and film, which provide quality images at lowest cost. Then, make the image digital by scanning it onto a special compact disc. It then can be read by a computer and used, for example, in putting out a desktop newsletter—all while preserving Kodak's core business by relying on ordinary film.

Photo CD was originally aimed at a consumer market. So far, it has been a flop. "It's been the dog of all dogs," says a buyer for a big U.S. electronics chain. He remains enthusiastic about the technology but doesn't think consumers understand it well enough to pay \$300 or more for a special Photo CD player. Photo CD has done better in commercial ap-

DOES FILM HAVE A FUTURE?

Commercial markets are clicking into the electronic-imaging revolution

Thanks to photography in its many forms, our world is saturated in visual images: snapshots of our kids, the latest Hollywood flick, ghostshots from war-torn Sarajevo.

Although most people don't think about it very much, every one of these images is created by light rays that strike marks on a photosensitive material—in most cases, one of the silver salts, such as silver iodide. Silver's chemical properties make it the best photo material yet discovered—for everything from beach scenes to X-rays. After years of research into alternatives, Eastman Kodak Co. still consumes an estimated 50

tons of silver a year. Silver is one less minute shooting snapshots.

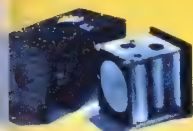
The move to electronic imaging represents photography's most radical change since the medium was invented in the 1820s (table). The biggest advances so far have been in products for the commercial market, rather than for amateur snappers. Most of the pre-press work that goes into printing a magazine, brochure, or book, for instance, is now done by computer, not on film. Xerox Corp. made a big splash on Nov. 1 by announcing a silverless graphic-arts film called VerdeFilm—the price of the December silver futures contract fell 14¢ (page 45). But some analysts say that the rapid pace of development in electronic imag-

ing film on Hasselblad and similar studio cameras and is aimed at catalog publishers and others who need quick turnaround and low cost. Kodak, Sony, Fuji, and others offer other similar apparatuses for use in photojournalism, medicine, and other specialties.

AMATEUR HOUR. Still, the highly profitable consumer film market will remain a tough one for computers to crack. With consumer photography, argues Bob A. Caspe, president of Leaf Systems, "you can hold the image in your hand and touch it. Any product that reduces that emotional impact will fail." That's why Kodak's disk-film format didn't make it in the 1980s, he figures: Buyers didn't think its small size and convenience made up for the low-quality prints it produced. Similarly, Kodak's Photo CD system, "relegates the emotional content to TV and plastic, which people view with disdain," Caspe says.

Still, Caspe says Leaf and others are working hard on electronic cameras for the mass market: "Within three years you'll see still-imaging products that will take an aggressive bite out of the con-

SNAPSHOT OF PHOTO HISTORY



1826 Joseph Nicéphore Niépce, a Frenchman, makes the first successful photograph

1888 George Eastman popularizes photography with the handheld Kodak (left)

1900 Eastman introduces the \$1 Brownie

1907 Autochrome, the first color photographic process, comes out

1925 The Leica camera launches high-quality 35mm photography

1935 Kodachrome, the first mass-market color film, is announced

1948 Instant photography hits the market with Edwin H. Land's Polaroid film

1963 Kodak launches the Instamatic camera, with easy-load film cartridges and flashcubes; 70 million are sold

1985 Home electronic photography begins, as video cameras start selling by the millions

1990 The first electronic still cameras are introduced—with a \$30,000 price tag

1991 Kodak unveils Photo-CD technology (right), which puts photos on a laser disk



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million ounces of the precious metal each year.

Now, as the photographic and chemical industries wrestle with a digital future, it has to wonder: Is traditional photography, the silver-based kind, going the way of the LP record and other artifacts of the analog age? Will the family photo album, that well-thumbed book of black and white ink, and sepia prints, turn into a hard, cold magnetic disk?

INSTANT IMAGES. In a sense, it already is. In the past decade, Americans have purchased millions of video cameras to record everything from baby's first steps to vacations in Europe. Video's advantages over an Instamatic are compelling: It records motion and sound, there's no charge for developing, and the results are viewable immediately. It's difficult to say if—and how much—video has hurt film sales. But one thing is certain: A minute spent shooting vid-

eo has already diminished Xerox's potential market.

Other industries, including medicine and law enforcement, are already moving to computers to store images that originally were shot on film. As needed, the images can be printed to silver-based photo paper. That's helping Kodak's Photo CD system catch on professionally, even though it has been a slow mover in consumer markets.

All along, though, the holy grail has been to replace film as the method for capturing images. And lately, microchips called charge-coupled devices (CCDs) have begun to yield still-image sensors that offer the right quality at reasonable cost. (Video CCD sensors have been of a much lower resolution, but at 30 images per second they fool the eye into seeing sufficient detail.) Typical is a \$35,000 device from Leaf Systems, a division of Scitex Corp., based in Israel. It replaces

consumer use of film," he says. All that's missing, Caspe says, is a satisfactory—and low-cost—way for people to view electronic pictures. One answer: color ink-jet printers being developed by Hewlett-Packard and Canon.

Others have their doubts, though. "It will be very difficult to replace silver's image quality," says Alex Henderson, imaging analyst at Prudential Securities Inc. "Silver remains very inexpensive for mass market applications." And Kodak, among others, plans to stay with film for shooting and electronics for later in the process. A spokesman notes that Kodak's Ektar 25 color print film can capture about 60 million pixels of visual information, while a \$20,000 Kodak CCD camera captures only 1.5 million pixels.

The lesson: Don't throw out that Brownie or Nikon just yet. It's probably got lots of life ahead.

By John W. Verity in New York

THE NECK-AND-NECK RACE TO THE TOP OF MOTOROLA

It's founding-family member Galvin vs. acting CEO Tooker

George M. C. Fisher may have departed abruptly, but he hardly left a management void at Motorola Inc. The two leading candidates to succeed Fisher are his colleagues from the Office of the Chairman: Christopher B. Galvin, the grandson of Motorola founder Paul V. Galvin, and Gary L. Tooker, now acting chief executive officer. Motorola's directors may hand one of them the top job as early as mid-November, during a scheduled board meeting in Beijing. The choice won't be easy. Asserts Arthur C. Nielsen Jr., the TV-audience guru who retired after 22 years as a Motorola director in 1989: "Either one could run it."

Here's a rundown on the strengths and weaknesses of the two contenders:

It hasn't hurt 43-year-old Christopher Galvin's career that his grandfather founded Motorola or that his father, Robert W. Galvin, was chairman for 26 years until 1990, or that his family owns about 3% of the company. But he has still had to pay his dues. At 22, he hit the road to hawk two-way radios in his first full-time job at the family business. After a break to earn an MBA from Northwestern University, where he graduated in the top 10% of his class, Galvin worked his way up Motorola's communications division before moving to the Schaumburg (Ill.) headquarters in 1988. "He's where he is because he's very good at what he does," says a senior Motorola manager. "Chris has a flair for business."

He demonstrated that flair as chief of the paging group in the mid-1980s. The group built a state-of-the-art factory, dubbed Operation Bandit because it "stole" existing automation techniques

from other companies, then implemented the methods imaginatively to hold down costs, speed up production, and improve quality. The result: a hot-selling pager that took a mere two hours to make, vs. 21 days for other models. "The technology was already there," says a Motorola officer. "It's how he packaged it to get a distinctive advantage."

Galvin is considered thoughtful, artic-

around or whether he will have to wait until the top job opens up again.

As Motorola's chief operating officer since 1988, Gary Tooker often played bad cop to Fisher's good cop. was Tooker, 54, who set demanding sales and profit targets for the operating units to ensure that Motorola had the financial resources to pursue ambitious ventures. One such lofty goal: Iridium, the company's proposed multibillion-dollar satellite network that would let subscribers make wireless phone calls to and from anywhere on earth. Under the stewardship of Fisher and Tooker, Motorola's sales will have doubled since 1988, to about \$16.5 billion this year. Profits, which languished through 1991, have more than doubled

since then, to about \$974 million in 1993, estimates Jonathan Joseph, an analyst at Kidder, Peabody & Co.

Befitting a bad cop, Tooker is said to be aloof and has publicly lambasted managers who failed to deliver results. His operating style was honed during his long stint in the cut-throat semiconductor industry. After graduating from Arizona State University as an electrical engineer, he joined Motorola's chip business as a product manager. Within 20 years, he was running the division. "He's the consummate business manager," says one Motorola executive. "He knows details and has an extraordinary memory."

Tooker's tough-guy manner has alienated some executives. "Galvin is very heavy-handed," says one current manager. "He cuts people short and ridicules people."

In Motorola's rough-and-tumble culture, though, he is not alone. Besides, says another manager, his job as CEO has been to play enforcer. But a CEO has to be mellow. Predicts this manager: "If Gary becomes CEO and Chris becomes immediately more lovable, while Chris becomes immediately more dictatorial."

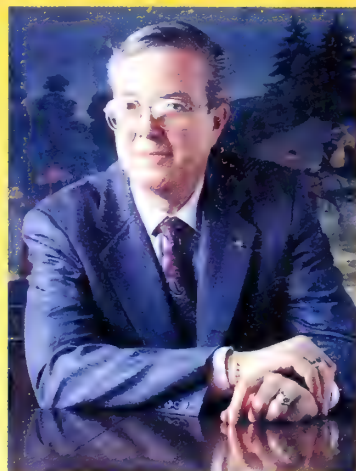
Motorola won't handicap its candidates. Its only comment: The company feels no need to look outside for a CEO.

By Lois Therrien in Chicago



CHRISTOPHER B. GALVIN

- ▶ 43
- ▶ BA, political science, Northwestern University, 1973
- ▶ MBA, Northwestern University, 1977
- ▶ Joined Motorola full-time in 1973, selling two-way radios; rose through communications unit to head paging in 1986. Promoted to chief corporate staff officer in 1988 and to senior executive vice-president in 1990.



GARY L. TOOKER

- ▶ 54
- ▶ BS, electrical engineering, Arizona State University, 1962
- ▶ Signed on in 1962 as a product manager in semiconductors; by 1975, was running the discrete chip business. Took over entire semiconductor operation in 1981.
- ▶ Named chief operating officer in 1988 and president in 1990.

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ulate, and personable, in the mold of his forebears. As part of the troika running Motorola—his title is assistant chief operating officer—Galvin has been leading a companywide effort to learn how to sell to consumers, a market that Motorola can no longer safely ignore. With his ability and name, there is little doubt that "in the fullness of time, he will be chairman," predicts John Welty, a former senior vice-president. Still, because of his relative youth, the big question is whether Galvin will get the nod this time

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STATE-BY-STATE HOCK TREATMENT

Clinton's health plan gives governors broad latitude to beef up benefits

America's states, Justice Louis Brandeis said, are the laboratories of democracy—and Bill Clinton couldn't agree more. Arkansas' former governor may have traded the White House for the White House, but he still speaks wistfully of his days in Little Rock, where the issues were close at hand and the politics were low-key. That nostalgia pervades Clinton's massive Health Security Act, which gives governors and legislatures broad latitude to shape health-care reform—and to control the renovated system.

But when the states become health-care laboratories, large employers fear that they'll be the white rats. Big companies argue that state control will overturn their pioneering efforts to rein in medical costs. Those operating in many states could end up facing "a patchwork quilt of state laws regulating benefits," frets Ron Wyse, director of employee benefits for Harris Corp., based in Melbourne, Fla. And big corporations figure they'll get stuck first when legislators want to force employers to provide richer health benefits. State control of reform is "even worse" than a Washington-generated health system, complains Philip O. McChols, who is human resources director at Storage Technology Corp. of Louisville, Colo.

VENGE. As Congress takes on Clinton's 1,342-page bill, "employers vs. governors will be one of the top three fights the card," predicts an aide to House Democratic leaders. It's the latest bout in a struggle for control over employee benefits sparked by the 1974 Employee Retirement Income Security Act.

ERISA was designed to preempt state pension rules. But businesses quickly discovered that the law could apply to health benefits as well. Multistate employers, weary of coping with 50 different state insurance regulators, used ERISA's federal rules to design uniform benefits plans for all their employees across the country. As smaller compa-

nies caught on, governors—including Clinton—found they were losing control over insurance and benefits.

The new health bill is Clinton's revenge. All companies with fewer than 5,000 workers would be required to buy employees' health coverage through regional "health alliances," designed by state legislatures and run by governor-appointed boards. States would certify which insurers or provider networks could sell coverage through the alliances and could pile new mandates onto the benefits package spelled out in the Health Security Act. "You could have to

Canadian-style single-payer health plan.

State advocates argue that somebody has to oversee health alliances, and states are the natural candidates. "State government looks bad until you say, 'Maybe the feds should run it,'" says Raymond C. Scheppach, executive director of the National Governors' Assn. Governors won't take on that massive responsibility, Scheppach adds, unless Washington gives them "flexibility and control to do the job right."

Congress may not rush to give states that power. "States have already made hash out of the health programs we've given them to run," says a top Democratic aide on the House Ways & Means Committee. Leaders of Congress' labor committees aren't eager to surrender ERISA's supervision of benefits plans. And politics may cut in business' favor: Democrats such as Ways & Means Chairman Dan Rostenkowski (D-Ill.) and health subcommittee Chairman Pete Stark (D-Calif.) likely won't cede control



WHY EMPLOYERS ARE NERVOUS

Under President Clinton's plan, states could:

- ▶ Force all employers to get coverage through a government-run health plan
- ▶ Require companies to pay for new benefits beyond those in the national plan
- ▶ Require self-insured companies to contract with specific doctors and hospitals
- ▶ Refuse to certify employers' provider networks

DATA: HEALTH SECURITY ACT, ASSOCIATION OF PRIVATE PENSION & WELFARE PLANS

cover acupuncture in California and unlimited alcoholism treatment in Texas," says Libby Sartain, director of benefits at Southwest Airlines Co. in Dallas.

The 1,000 or so biggest employers can get out of the state-run alliances by forming "corporate alliances" to run their own benefit plans. But that may not exempt them from state control. Clinton's proposal doesn't bar states from adding extra benefits to health plans (table). Large companies would be required to offer traditional fee-for-service insurance that would pay doctors and hospitals on state-dictated pay scales. And some states could wipe out corporate alliances altogether by forcing large corporations to become part of a

to their states' Republican governors.

Business lobbyists, however, are treading cautiously. The two leading alternatives to Clinton's bill—sponsored by Senator John H. Chafee (R-R.I.) and Representative Jim Cooper (D-Tenn.)—also give states substantial oversight. And while health interest groups are counting on Clinton's well-known willingness to compromise, no one knows how hard the President will fight for his old gubernatorial colleagues. If he decides to make a stand, employers may need all their political skills to escape the states' health laboratories.

By Mike McNamee in Washington, with Gail DeGeorge in Miami and Sandra D. Atchison in Denver

WELL, IT WALKS LIKE AN EXPANSION

Much of Corporate America thinks the rebound is for real this time

The on-again, off-again U.S. recovery is suddenly showing signs of real oomph. You see it in the day-to-day changes that make an economy go: Women are buying shoes again; cardboard-box sales are up; a refrigerator factory in Anderson, S.C., is adding 150 workers. And a bevy of recent government statistics buttresses the feeling that the economy is turning around. Since the sluggish first quarter, consumer spending has grown at an annual rate of nearly 4%, while business investment in capital equipment is up more than 14%. Bolstered by the spending, the economy expanded at a healthy 2.8% annual clip during the third quarter.

But get down and dirty in a discussion with corporate executives, and they all have the same worry: Is the rebound for real? After all, things picked up even more during 1992's fourth quarter, when the economy grew at a 5.7% annual rate. Then the bottom fell out at the start of 1993.

This time around, Corporate America figures the upturn is genuine. Executives say they expect a solid fourth quarter and predict that steady consumer demand and healthy business investment, combined with a pickup in exports, will produce a solid—if unspectacular—1994. But optimism is hardly rampant, and some executives still harbor reservations. "People are nervous," says Intel Corp. Chief Operating Officer Craig R. Barrett. "But things still feel good."

CHIPS AND CARS. As it happens, Barrett's industry is one that expects to do reasonably well. With personal computers selling as fast as they can be built, demand for chips is soaring: Sales are up nearly 30% worldwide this year. Many old-line industries are in a similar mood. Auto sales, for instance, are up

about 8% so far this year vs. 1992, and the fourth quarter is expected to be at least as strong. Producers are boosting output by 12.5% to rebuild depleted inventories and meet stronger demand, says *Ward's Automotive Reports*. Next year? Maybe an 11% pickup.

Detroit isn't turning handsprings, however. "The sales improvement you're seeing is off very low levels," says Ford Motor Co. Treasurer David N. McCammon. At General Motors Corp., Chief Financial Officer G. Richard Wagoner's

worries go beyond the company's deep problems. "What's keeping me awake at night?" he asks. "The thing that we can't control is the economy. We're hoping it won't go down the tubes."

While Big Three executives still are just dipping their toes in the pool of optimism, some of their suppliers have jumped in with both feet. Auto-parts makers are enjoying a strong year and predict an even better 1994. Echlin Inc., a Branford (Conn.) maker of gaskets, brake pads, and the like, is coming off its best quarter in five years—unit volume was up 3%—and is expecting more of the same next year. The reasons: a big increase in repair and maintenance work and a boom in truck sales. Cleveland-based Parker Hannifin Corp., which makes hydraulic and pneumatic components and other industrial parts, says North American orders for such goods rose some 15.8% in the past quarter. And CEO Duane E. Collins says the U.S. economic upturn seems "pretty broad-based."

This year's housing rebound—sales reached a seven-year high in September—has begun to lift the spirits of home-related industries. Through September, appliance shipments jumped nearly 5% from last year. Furniture

Consumers are busy snapping up computers, cars, and refrigerators, yet polls reveal that most people continue to feel rotten about the economy

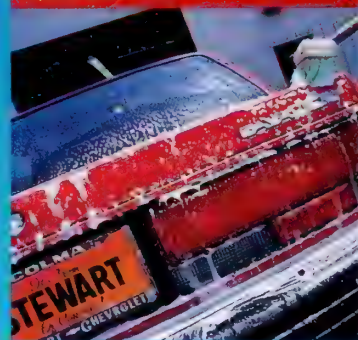
FURNITURE



BUSINESS IS STARTING TO BELIEVE

Auto makers are still cautious, but furniture and appliance makers are planning to hike output by 12.5%.

AUTOS

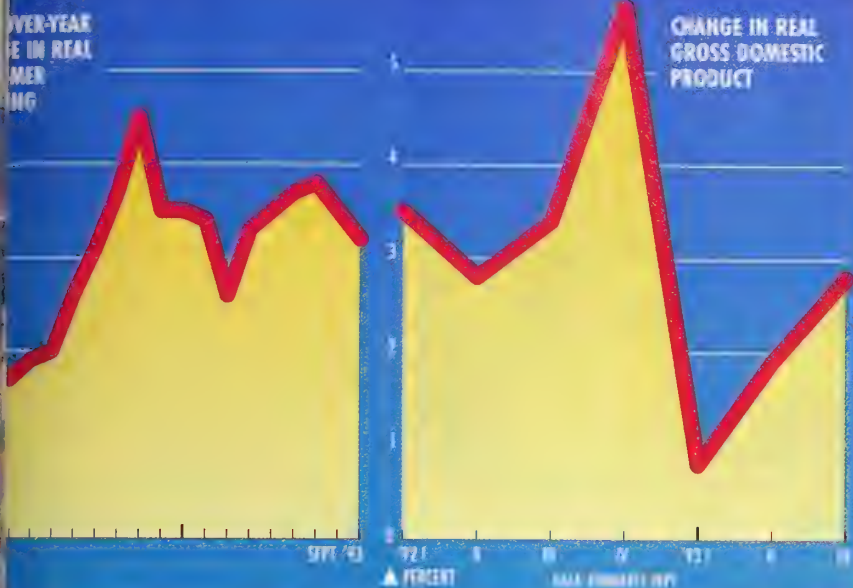


sales are up, too. And carpeting. Shaw Industries in Dalton, Ga., has seen its sales increase by 32% over the past year, so CEO Robert E. Shaw is feeling pretty good—sort of: "The numbers are better. But they're not fantastic yet."

Count Tenneco Inc. CEO Michael Walsh in the bearish category, too. No matter where you go, there's just an enormous amount of insecurity,

CONSUMERS ARE IN FORCE...

...BUT CAN THEY BOOST THE ECONOMY?



ANCES



"There's a kind of sour mood in the country." But some of his own staff, including the president of Packaging Corp. of America, a Tenneco unit in Evanston, Ill., is more upbeat. Industry demand for cardboard boxes is up 3.2% through September, and President Monte Haymon expects the company to raise the year up 4.5% to 5% in unit sales. "We've had false starts in the past,"

says Haymon. "But we're a little more enthusiastic about this one."

One reason for the confusion is that consumer attitudes remain something of a mystery. Consumer confidence surveys show that people still feel rotten about the economy. Yet consumption rose 0.3% in September from August.

Some of that activity may simply represent pent-up demand for necessities

rather than splurging, says Jerome Fisher, chairman of Stamford (Conn.) shoemaker Nine West Group Inc. So far this year, the company's sales are up by more than 18%. And Fisher feels even better about the rest of this year. "We're much more optimistic than we were in the third quarter," he says. "In the last two or three weeks, there's been a slight upturn in confidence. You can sense it in the air." At Sears, Roebuck & Co., where same-store sales have increased by more than 10% over the past four months, Chairman Edward A. Brennan agrees: "Things are going better than we thought two or three months ago. I don't think it will cool off."

EUROPE STIRS. That may bode well for Christmas. But it doesn't mean retailers are stuffing their shelves. One sign of managers' unease is that they are keeping inventories lean. According to the American Production & Inventory Control Society's business outlook index, total inventories have been steadily falling since February. Companies are producing just enough to meet demand. "Most business executives are still skeptical about the durability of any upturn," says economist Michael K. Evans, who developed the index. "They feel they got burned in '91 and '92 and don't want to make the same mistake."

Yet the index shows that both shipments and new orders are strong. And other surveys report that even exports, which have been stuck in the doldrums thanks to the European recession, may be picking up. Roulston & Co., a Cleveland investment firm, found in a recent survey that Great Lakes manufacturers are seeing sales growth in Mexico and South America, as well as the Pacific Rim. And about 14% say European sales are up in the past two months.

The labor market, however, still seems feeble. The American Business Conference survey of its members shows that they expect big increases in sales, margins, and investment in the fourth quarter—but only a modest 2% rise in employment. The economy is adding about 150,000 jobs per month, but that just doesn't feel strong to employees still worried about layoffs.

The bottom line: Optimism is growing, but executives remain guarded. Jobs are being created, but with many companies still restructuring, productivity gains will likely keep employment growth slow. Consumers are spending—for now. Put it all together, and Corporate America hopes the scales are weighted in favor of an on-again, off-again recovery that's on for the duration.

By Howard Gleckman in Washington, with Chris Roush in New Haven, Zachary Schiller in Cleveland, and bureau reports

LABOR



THE ESOP THAT SAVED WEIRTON IN 1984 HAS LEFT EMPLOYEES EMBITTERED, NOT EMPOWERED

THE OWNERS VS. THE BOSS AT WEIRTON STEEL

Workers, who control the stock, are butting heads with management

Angry steelworkers file into the West Virginia meeting hall with "No" buttons pinned to work-shirts and baseball caps. Nine years ago, before "worker empowerment" became a catch phrase, these men and women at Weirton Steel Corp. bought control of their company with the nation's largest-ever employee stock-ownership plan (ESOP). But ownership, they have learned, doesn't always translate into power. And that's what they're after now. "There comes a time when you have to [choose to] fight or not," says John White, a pipe fitter who has worked for 25 years at the Weirton (W. Va.) plant. "We're going to fight."

Indeed, frustration has rarely run higher among Weirton's worker-owners. They have taken pay cuts, accepted layoffs, and watched management spend \$550 million to revamp the company's mill. Yet it has been three years since the company turned a profit. And workers are galled that with 77% of Weirton's voting stock and 3 of 13 board seats, they still wield little power. As an example, they say angry calls to remove a director whom they charge with conflict of interest have been ignored.

Now, openly distrustful of Chief Executive Herbert Elish and his management team, the worker-owners face what many see as their last chance

to gain control of the company. On Nov. 11, stockholders will be asked to authorize a new stock issue to pay down \$150 million of the company's \$495 million in debt. Workers, who worry that issuing more stock would dilute their hold on Weirton, are organizing for a thumbs down. "No more blank checks," vows Frank Slanchik, a crane repairman who is leading the drive.

Weirton's problem stems from the conflicting constituencies of an ESOP. Workers own the company, but their voice on the board often is limited so that the company is more manageable and palatable to investors. That scheme works as long as the employees support management. But when worker-owners battle for control, as at Weirton, they

face the risk of spooking shareholders. Investors will have to consider "potential conflicts" at Weirton in deciding if any new stock is a good buy, says Christopher Plummer, a steel analyst at J. Source Strategies Inc. in Philadelphia. "RUSSIAN ROULETTE." Elish feels failure to pay down debt could scuttle Weirton's otherwise bright prospects. He wants employees—and prospective investors—to know that "this company will fail" without the stock issue. He wants to move quickly before Wall Street cools on steel stocks. In a controversial videotape, the CEO compares delaying the stock issue with playing "Russian roulette."

If debt can be cut, Elish figures, Weirton soon will return to profitability. The tin-plate operation, which accounts for 45% of its \$1.08 billion in sales, is threatened by competition from tough minimill rivals, such as Nucor Corp. and North Star Steel Co. Plus, its work force of 6,100 is virtually free of the retirement costs that burden such steel makers as USX Corp.'s U.S. Steel division. When the ESOP bought the mill in 1984, the seller, National Steel Co., picked up the tab for retirees.

Meanwhile, Weirton's chief is the target of angry jibes. Opposition posters near the plant call him the "video king," a reference to his taped warning. Workers and ESOP directors also criticize him for alleged cost overruns in the modernization program. One group of workers sued Elish and the board for gross negligence, forcing the board, one director says, to spend \$7 million on supplemental liability insurance.

Another source of boos and hisses is Harvey L. Sperry, a partner in the New York law firm Wilkie Farr & Gallagher who is an independent member of Weirton's board. Workers charge that he is divided loyalties. While his New York office bills the company more than \$1 million per year in legal fees, its Washington branch defends foreign steel producers from dumping charges filed by Weirton and other U.S. companies. "It's a shocking conflict of interest," says Phillip H. Smith, an independent board member. Sperry did not return BUSINESS WEEK's calls for comment.

Where will it all lead? At the very least, Elish will probably end up ceding ground on governance issues, giving the ESOP a larger voice on the board. He also is likely to find a way to issue new stock without undermining the ESOP's stake in the company. But even so, the battle for control at Weirton is sure to continue. For how long? At least until the company finally turns a profit again.

By Stephen Baker in Pittsburgh and Keith L. Alexander in Weirton

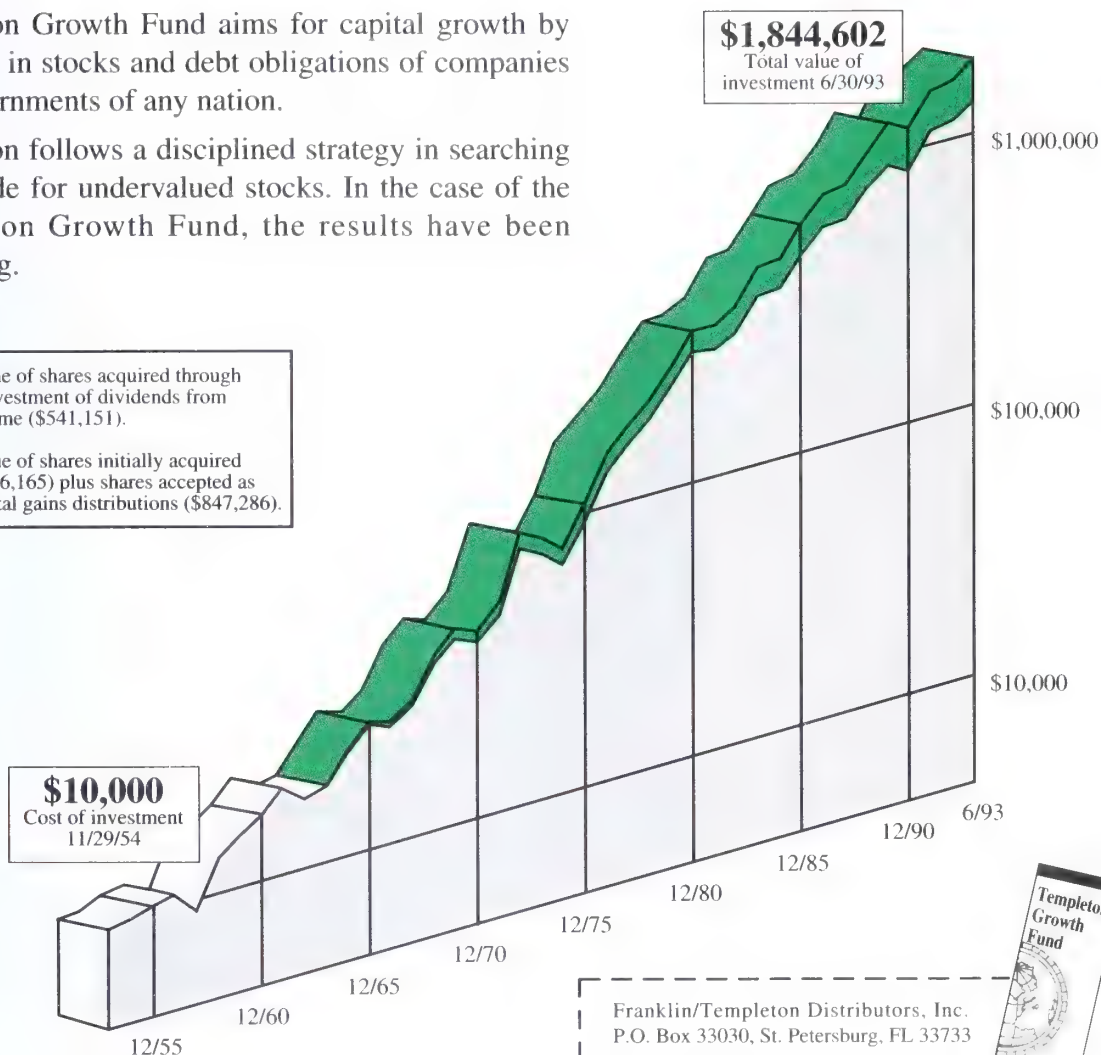
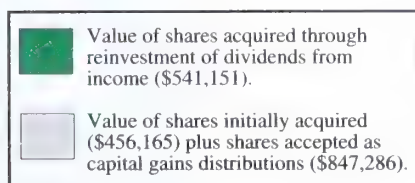


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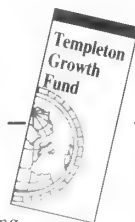
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HOME IS WHERE THE WORK IS

The GM-UAW contract keeps workers mobile—and stressed out

Pam Gmyr just became one of General Motors Corp.'s gypsies. In August, the 35-year-old single mother left an about-to-be-shuttered GM plastics plant in Syracuse, N.Y., for a job installing pistons at the company's bustling Tonawanda engine factory, near Buffalo. By staying with GM, she kept one of America's best-paying industrial jobs, but the move was bittersweet. She now works the second shift, from 4 p.m. until 1:30 a.m., leaving her just two hours a day to spend with her 10-year-old daughter. "I'm not happy," she laments. "But if I didn't come here, what was I going to do?"

As members of the United Auto Workers prepare to ratify their new three-year contract with GM in a vote expected to be tallied by Nov. 10, it's clear that Gmyr is part of a trend. Labor experts estimate that as many as 60,000 GM factory hands, or nearly one-fourth the current total of 265,000, have moved at least once in the past 10 years to keep their jobs. And under the new contract, the number could grow dramatically. Greater worker mobility is one key to GM's plan to close nearly two dozen plants in the next five years and consolidate work in high-volume facilities.

For workers, the monetary and emotional cost of moving can be high. Workers often leave families behind and commute home hundreds of miles for weekends and vacations. Such hardships can create resentment and alienation. And when moves go sour, the result can have "terrible effects on productivity and quality," says Sean McAlinden, a researcher at the University of Michigan.

BUY OR FLY. Yet making the new pact work is critical for GM. It coughed up a staggering \$3.3 billion in jobless benefits under the previous contract, partly because it didn't give management enough flexibility in relocating employees. Under the old contract, laid-off workers could turn down any job offer more than 50 miles away and still receive up to 100% of their annual pay, averaging \$40,000. Recently that has meant occasional labor shortages that cost GM sales. The Tonawanda complex, for instance, has been unable to meet demand for four- and six-cylinder engines—even though some employees say they work 70 or more hours each week.

To encourage workers to go where the jobs are, GM and the UAW have agreed to new incentives and stricter rules. Relocation benefits jumped to a maximum of \$20,000, from \$3,324 before. And workers in eight areas of the country will have to accept jobs farther from home. Those laid off at the Kalamazoo (Mich.) stamping plant would have to accept job offers in Fort Wayne, Ind., 110 miles

him. He stayed in a hotel for a week before finding a \$600-a-month apartment to split with two co-workers. Now, he's spending about \$60 a month phoning his wife and 4-year-old son in Syracuse.

GM and the UAW are launching a joint study aimed at alleviating the strain of such moves. The study will likely propose counseling and other services for affected workers. For now, though, it's pretty much sink or swim," concedes Thomas Fricano, director of the UAW union that includes New York.

"A LOT OF HURT." Some workers opt to stay put. About 100 workers out of 300 from GM's plastics plant in Syracuse turned down jobs at Tonawanda, despite losing jobless and other benefits. The prospect of moving only to be laid off later is one worry. And Christine Hot-



CLOCKING IN AT TONAWANDA

HOW GM IS GETTING WORKERS MOVING

LONG-DISTANCE TRANSFERS

Under the terms of its new pact with the UAW, GM can force some workers to take jobs 110 miles or more from home, vs. a maximum of 50 miles in the past

MORE RELOCATION MONEY

The relocation allowance has been increased to a maximum of \$20,000 from \$3,324

MORE COMPETITION FOR JOBS

Active workers, not just those who have been laid off, now can apply for open jobs at any GM plant

DATA: RICHARD WILSON

away, or forfeit all benefits, for instance. Even laid-off workers at such remote locations as Van Nuys, Calif., which closed last year, are getting leaned on. The new contract encourages them to accept a job elsewhere in GM, retire early, or take a buyout that can include up to \$90,000 and a \$10,000 voucher toward buying a new GM car.

The changes will help ease the pain of workers such as Tony Giordano, 36, who moved the 150 miles from Syracuse to Tonawanda in April and quickly went through the \$2,300 the company gave

ing, for one, didn't want her family to undergo the stress of her working the second shift. "There's going to be a lot of divorces, a lot of bankruptcies, a lot of hurt," she predicts.

Still, with few other jobs around town, pay GM's average \$18 an hour plus benefits, most workers are likely to opt for moving. "Factory workers will become just as mobile as executives," predicts Fricano. A necessary change, perhaps, but one that could cause major stress between GM and its workers.

By David Woodruff in Tonawanda, N.Y.



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A CASE STUDY IN CHANGE AT HARVARD

The B-school's proposed revamp would focus more on cooperation

Tradition isn't easily discarded at Harvard business school: Its rowing crews still paddle the Charles River with oars adorned with dollar signs. But now, amid growing criticism from some students and employers, Dean John H. McArthur and his elite institution finally are set to put forth a surprisingly radical blueprint for reform.

On Nov. 8, the school plans to announce proposals to remake its MBA program—the result of an 18-month-long review of business education by faculty and administrators. Under the proposal, Harvard would reduce class sizes, shift class-work into fewer integrated courses that stress teamwork, and change its toughly competitive grading system (table). It also would alter admission standards, accepting applicants with less work experience in order to increase student diversity.

The proposed changes, details of which were leaked to the student newspaper and confirmed by faculty sources, have met with both surprise and approval. "At HBS, change doesn't come very easily, and when it does, it comes in incremental steps," says Ann Pao, a second-year student and editor of *The Harbus News*. Adds a former faculty member: "It amounts to quite a powerful reform."

NEW WORLD. Why mess with the HBS formula? Only a few months ago, faculty members and administrators were downplaying the likelihood of any dramatic changes in the school's MBA curriculum, even though Harvard's last major revision occurred in the 1960s. But other schools have overhauled their programs in recent years in order to better prepare graduates for a rapidly changing business world. In other words, Harvard needs to stay competitive.

Administration officials won't say so. In fact, they decline to comment on the proposals. But insiders believe that Dean McArthur and the senior faculty have

become supportive of an overhaul in recent weeks. The plan still must gain faculty approval, and it's possible that some specifics may fail to win acceptance. But as one professor put it: "We're fairly certain, given the dean's comments over the past few weeks and the general mood of enthusiasm around here, that change will occur." The B-school may act on the recommendations by yearend

The school also would collapse its required first-year courses into four integrated courses on such topics as Managing Product and Services, to be taught by faculty teams. The consolidation, according to confidential documents obtained by *Harbus*, would change an "increasingly fragmented required curriculum to one that consciously seeks to integrate and unify the essential concepts and skills of management and leadership." Harvard would decrease sections to 72 students from 90, chop an academic year into trimesters from semesters, and use networked computing to integrate technology more effectively into class work.

NOTHING NEW. Many of these proposed revisions have already been installed at other leading business schools. "I don't think this is a new paradigm," says Edward A. Fox, dean of Dartmouth University's Amos Tuck School of Business. "They are trying to do what a lot of us are doing already, and many of the things they're planning we've done for years."

There's no consistent evidence that those changes have been successful. But teamwork, for instance, has long been an essential part of the B-school cultures at Tufts and Northwestern University's Kellogg School. The business schools at Indiana University and the University of Tennessee at Knoxville have done away with the traditional first-year courses in accounting, finance, and marketing and replaced them with more integrated courses. At these B-schools, MBAs receive only two grades in the first year.

Still, Harvard being Harvard, the proposed remake seems destined to disturb some sacred cows. To encourage collaboration, for example, the plan would do away with the forced grading curve that has long made the school among the most competitive in the world. You can almost

hear the collective sigh of relief emanating from Boston. "It's not a revolution, but it's definitely a step in the right direction," says Peter C. Lee, a second-year student. "If this gets passed, it will be more in line with what people are trying to do in the business world. There's no forced curve, after all, in Corporate America."

By Lori Bongiorno in New York



THE NEW AND IMPROVED HARVARD BUSINESS SCHOOL

Changes proposed by a faculty committee at the Harvard business school:

CURRICULUM

The 11 required first-year courses would be folded into four classes

GRADING

Dreaded forced curve would be abolished in favor of merit grading system

TEAMWORK

MBA students would complete up to 25% of course work in teams; no formal teamwork is required now

ADMISSIONS

Applicants with less work experience than current students would be admitted to promote diversity

DATA: THE HARBUS NEWS, BUSINESS WEEK

and implement them as early as the fall of 1994.

Under the plan, the school would deemphasize its fabled case-study mode of instruction, long heralded as a major advantage over competing programs. Up to 25% of the course work for first-year students would be composed of group projects outside class. Currently, there are minimal teamwork requirements.

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KIDNAP FAMILY VALUES IS ONE OF PARAMOUNT'S TWO SEQUELS TO \$100 MILLION HIT

NO NIGHTMARE BEFORE THIS CHRISTMAS

Hollywood's holiday lineup looks like box-office gold

Sometimes things in Hollywood really are as good as the publicists say they are. In the months since *Jurassic Park* swept America, theater turnstiles have been clicking so furiously that the hype seems less, well, less hyped than usual. The reception of *The Beverly Hillbillies*, a brain-dead remake of the 1960s television series, is evidence of how willing moviegoers seem to be to line up for just about anything: The film sold an impressive \$25 million worth of tickets in its first three weeks.

A strong finish over the holidays could make this a boffo year for Tinseltown. Through October, national box-office receipts are up a robust 13% over last year—enough, *The Hollywood Reporter* estimates, to push ticket sales to a record \$5.3 billion for the year. Taking advantage of this movie lust, Hollywood's eight largest studios plan to release 18 films before Christmas—up from 14 in the same eight-week period last year. Most studio execs consider only one, *Mrs. Doubtfire*, starring Robin Williams, a sure-fire winner. But others, such as *The Pelican Brief*, starring Julia Roberts, and sequels to

the hits *Sister Act* and *The Addams Family*, are also expected to do well.

There are, of course, some question marks. Will audiences buy good guy Kevin Costner as a kidnapper in Warner Bros. Inc.'s *A Perfect World*—even with superstar Clint Eastwood as an added draw? And *My Life*, which stars Michael Keaton as a cancer-stricken expectant father, is far from cheery viewing. Audiences also may not warm to westerns at Christmas, such as Columbia Pictures' *Geronimo*, with Robert Duvall as an army officer, and Walt Disney Co.'s *Tombstone*, with Kurt Russell as Wyatt Earp.

With so many flicks in the offing, studios are scrambling to make their films stand out. Disney released the offbeat, stop-action animated *Tim Burton's Nightmare Before Christmas* to a handful of theaters in mid-October

and built a good buzz before its general release on Oct. 29. And Twentieth Century Fox Film Corp. moved up *The Beverly Hillbillies'* release from November to October.

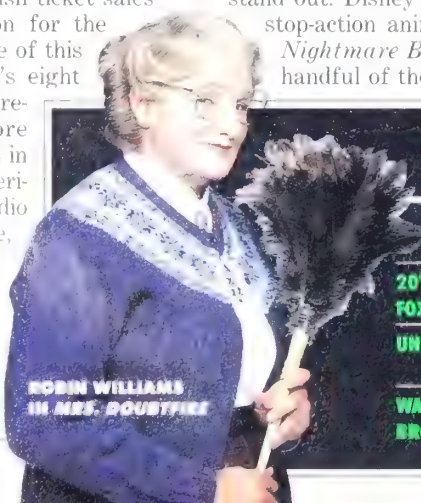
Why is Fox's *Mrs. Doubtfire* pegged as a sure hit? Hollywood execs say Williams, who stars as an estranged husband who dresses in drag to get a job as a nanny for his children, gives a strong performance. And to add zing, Fox has doubled its usual sneak previews, to 1,000. "This is a \$200 million film if they don't screw it up," says an executive with a competing studio.

Moviedom would welcome a Christmas blockbuster, since a big film usually creates hot sales for everyone. And no company needs a hit more than Paramount Pictures Corp., which is the subject of a takeover battle just as new management is struggling to increase production. The studio hopes for a boost from *Addams Family Values* and *Wayne's World*, the sequels to two \$100 million movie "puppies." A strong Christmas season could also help Universal Studios Inc., which has had few winners since *Jurassic Park*. For the holidays, Universal is rolling out Al Pacino in the thriller *Calito's Way*, plus a sequel of its own, *Beethoven's 2nd*. The first story of a slobbering Saint Bernard sold an impressive 4 million videocassettes. "That's a tremendous word-of-mouth advantage," says Universal Chairman Tom Pollock. "We've got the same cast back, and this time, we've got puppies."

Parents desperate to entertain kids over their school breaks won't have much trouble parking them at the theater. Warner Bros. put Macaulay Culkin in the ballet *The Nutcracker*. Universal will trot out superintelligent dinosaurs in the animated *We're Back! A Dinosaur's Story*, produced by *Jurassic Park* director Steven Spielberg. And Disney is giving its *Three Musketeers*, starring Charlie Sheen and Kiefer Sutherland, a larger-than-usual opening of 2,000 theaters. "It has tested as well as *Honey, I Shrunk the Kids*," says Richard Cook, president of Disney's distribution unit.

Theater owners predict a bang-up holiday season. "I look at this schedule like someone gave me a giant Christmas present," says Michael W. Patrick, president of 1,560-screen Carmike Cinemas Inc., a chain based in Columbus, Ga. Holiday hype? To be sure. But this year, it could be right on.

By Ronald Grover
Los Angeles



ROBIN WILLIAMS IN *MRS. DOUBTFIRE*

HOLLYWOOD'S CHRISTMAS LIST

PARAMOUNT	<i>Addams Family Values:</i> Morticia has a baby
20TH CENTURY FOX	<i>Mrs. Doubtfire:</i> Robin Williams in drag
UNIVERSAL	<i>Beethoven's 2nd:</i> A dog tale for the whole family
WARNER BROS.	<i>The Pelican Brief:</i> Julia Roberts' comeback movie

ED BY KEITH H. HAMMONDS

AIRLINE THAT Y NOT FLY

ooked on American Air-
s for Thanksgiving vaca-
? Flight attendants at
merican are threatening to
ke before Nov. 22, disrupt
holiday service. This
es after the airline said it
ld impose its own contract
the work force, a deal the
pany says will reduce
fing requirements but de-
r raises averaging 35%
t four years. Meanwhile,
ms at United Airlines have
Nov. 13 to complete details

LOSING BELL



JULY 4, '93 NOV. 2, '93
DATA: BRIDGE INFORMATION SYSTEMS INC.

WHAT'S TAKING E SHINE OFF SILVER

silver market was tar-
ed by the Nov. 1 news that
x had developed a photo-
phic film that does not re-
e conventional silver com-
nds. Was the market
reacting? True, photo ap-
ations account for 40% to
% of industrial silver con-
ption. But Xerox' film is
ed at the commercial mar-
not the bigger amateur au-
ce. And its success de-
ds on big investments by
iters in new equipment.
n the long run, silver prices,
gold, historically have
n driven largely by infla-
i. Indeed, it's the continuing
spect of modest inflation
t has sent futures tumbling
n \$5.50 in August.

of their \$4 billion proposal to
buy as much as 60% of the
carrier. But sources close to
the talks say they are hitting
snags. One positive note: TWA
finally emerged from bank-
ruptcy on Nov. 3, with at
least \$200 million in cash.

CELLULAR DIVISION AT PACIFIC TELESIS

► While many of its siblings
are rushing to marry onetime
rivals, one Baby Bell is set to
split itself up. On Nov. 2, Cali-
fornia regulators approved
Pacific Telesis Group's plan to
spin off its cellular operation
into a separate company. The
benefit: The cellular company
will be freed from some federal
and state regulatory re-
strictions, and the remaining
phone company can better
compete for next year's auc-
tion of new wireless frequen-
cies. Telesis plans to sell 12%
of the new company to the
public for \$1.2 billion starting
next month, and it will distrib-
ute the rest of the stock to
current shareholders. Pac-
Tel's stock jumped 9% on the
news, to 59½, but some ana-
lysts question the strategy:
Certain federal regulations
have eased already, removing
old barriers.

WAL-MART PICKS UP THE PACE

► Retailing's Goliath is get-
ting bigger. Wal-Mart Stores
announced on Nov. 2 that it
would buy 91 PACE Member-
ship Warehouses from rival
Kmart, which will realize \$300
million in net cash from the
deal. Kmart is shedding the
money-losing chain as part of
its effort to focus on its core
discount operations. Wal-
Mart, which bought 14 Pace
clubs in May, will add the new
stores to its 326-unit Sam's
Club division, which had sales
of \$12.3 billion last year. The
move is more evidence of con-
solidation in the warehouse
business: Last month, rivals
Price and Costco Wholesale
completed their merger.

HEADLINER

BLOODBATH IN BEANTOWN

"A bloodbath" is how one
Bank of Boston insider de-
scribed it. On Oct. 29, Chair-
man Ira Stepanian abruptly
fired three of his six top lieut-
enants, including two he had
handpicked from outside
the bank during the
past three years.

To some outsid-
ers, the move
seemed a pow-
er play: Stepan-
ian got rid of a
leading contend-
er for his job, Ke-
vin Mulvaney, the
national lending chief.
He also ousted Michael Sim-
mons, who helped keep the
bank solvent during the real
estate crisis, and Newton
Merrill, a Bank of New York
alum.

But the shakeup also ap-
pears to represent an attempt
to replace Bank of Boston's
clubby, top-down manage-

ment style with something
more General Electric-ish. The
new structure, which gives
profit responsibility to 15
managers, "places a premium
on organizational cooperation
and reduces roadblocks
to meeting customer
needs," Stepanian
says. Transla-
tion, say bank
executives: Too
many officers
wanted to play
by their own
rules.

But can banking
become entrepreneurial?
Nancy Bush, a Brown
Brothers Harriman analyst,
expects the answer to be clear
soon. The bank's profits have
trailed the industry's for more
than a year. Now that Stepan-
ian has things his way, Bush
says, "it's put-up-or-shut-up
time."

By Geoff Smith

ONE OF THE LUCKY ONES IN CALIFORNIA

► Life in Southern California
sure has changed. Strong
winds kicked up again on
Nov. 2, igniting fires in hills
above Malibu that swept over
more than 35,000 acres and
destroyed an estimated 300
houses. A week earlier, a ring
of flames from Los Angeles
to San Diego devastated more
than 173,000 acres and 731

houses, doing an estimated
\$500 million in damage.
Among the few winners was
Hughes Aircraft: It airlifted
27 company-employed fire-
fighters to help protect its re-
search facility near Malibu—
which was unharmed.

A REPRIEVE FROM CANCER FOR WALSH

► Thanksgiving will take on
new meaning this year for
Tenneco Chief Executive Mi-
chael Walsh. Less than a year
after being diagnosed with
brain cancer, the hard-charg-
ing Walsh, 51, announced on
Nov. 1 that doctors said his
brain tumor had stopped
growing and was breaking
up. Walsh, who will continue
chemotherapy until next
spring, says the doctors now
expect him to have a "nor-
mal" life span. They believe
the threat of a recurrence is
remote. Despite some remain-
ing weakness, Walsh says he
will be skiing by Christmas.



THE FIRE THIS TIME

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LINTON'S COATTAILS AN'T GET MUCH SHORTER

White House spinners can insist that "change" won everywhere and, besides, Bill Clinton wasn't on the ballot anywhere. But don't be fooled. Election of 1993 was a slap in the face for Democrats and the President. And there's worse to come. The wipeout in New Jersey, Virginia, and New York City will make it far more difficult for Clinton to push his agenda through Congress. And it gives Republicans hope for big gains in the 1994 congressional elections—including the possibility of retaking the Senate.

The morning after, White House politicians labored to explain why local quirks led to the narrow defeats of New Jersey Governor Jim Florio and New York Mayor David N. Dinkins, as well as to Republican George Allen's landslide gubernatorial win in Virginia.

But, when earlier defeats in Los Angeles and Texas are included, the Democrats have now blown five straight high-stakes races. "At some point," says a Princeton Institute pollster Lee M. Mir-off, "a series of idiosyncratic elections becomes a trend."

MEBACK. The bad news for Democrats doesn't end there. This fall marked a comeback for hot debates over crime and taxes, "wedge issues" that have sustained the GOP for 25 years.

Clinton aides saw New Jersey as a test of their theory that a politician who "did the hard thing" would be rewarded. But voters wouldn't forgive Florio for raising taxes after promising not to and turned instead to Republican Christine Todd Whitman. In both Virginia and New York, Republicans capitalized on fears of crime. Allen's vow to end parole for violent criminals attracted droves of Democrats, while Rudolph Giuliani's get-tough pledges scored with New Yorkers worried about their safety.

What's the message of '93? Voters reject politics-as-usual. And that's bad news to officeholders in both parties. "Every incumbent anywhere has to watch out," says Republican media consultant Greg Stevens, who worked for Allen. At gravest risk are pols who, like Florio, promised one thing during a campaign and then did something else. "If I were an incumbent, I'd see what I'd promised in the last campaign, and I'd get to work on it this afternoon," says Democratic consultant Dane Strother. "If you don't do what you said you were going to do, the voters will fire you."

To win over voters next fall, Democrats need accomplishments to brag about. But analysts say the election debacle complicates that mission. Many Democrats, already jittery about having voted for Clinton's tax increase, are reluctant to back the North American Free Trade Agreement or Clinton's health plan. Now, Republicans and moderate Democrats may win backing for a less ambitious health overhaul.

WAKE-UP CALL. On Capitol Hill, the GOP will try to build on its anticrime success by forcing Democrats to cast hard votes on such issues as capital punishment and tougher sentences in amendments to the pending crime bill. And a test of Democrats' willingness to heed voter warnings about excessive spending will come in a Nov. 19 House showdown over Clinton's latest proposed budget cuts. A coalition led by Representative Timothy J. Penny (D-Minn.) and John R. Kasich (R-Ohio) has proposed trimming spending by \$103 billion over the next five years—nearly 10 times what Clinton wants.

The vote "has shaken Democrats out of their post-Presidential-election, self-congratulatory stupor," says Democratic consultant Dawn Laguens. To recover, they must admit that Clinton didn't win a broad mandate in 1992. And to avoid catastrophe in 1994, Democrats must quickly recast their initiatives. The GOP is already dreaming of a tidal wave that would give it control of the Senate and a majority of governors' mansions in 1994. It's a goal that no longer seems out of reach.

By Richard S. Dunham



WHITMAN: AIDED BY ANGER OVER TAXES

PITAL WRAPUP

LETS

While Congress debates such weighty matters as free trade and health care, members report that the issue generating the most mail to their offices is dietary supplements. Ending Food & Drug Administration rules would prohibit claims of health benefits for the supplements unless they are scientifically justified. So the industry has generated a flood of letters by warning that the new rules could result in popular products, including vitamins, being taken off store shelves. Senator Orrin G. Hatch (R-Utah) is pushing industry-backed legislation that would effectively bar the

FDA from regulating most health claims. However, two Hatch foes—Representative Henry A. Waxman (D-Calif.) and Senator Edward M. Kennedy (D-Mass.)—are prepared to push for an alternative that leaves intact the FDA's power to restrict claims while assuring consumers that their favorite products will remain available. In a "dear colleague" letter, Waxman, chairman of a key House health subcommittee, says he'll offer a bill that "makes it clear consumers have a right to purchase any [safe] vitamin, herb, or dietary supplement." The Waxman-Kennedy approach would have little or no impact on the FDA's plans. But it might at least stanch the flow of mail.

PEROTNISTAS

If California is a leading indicator of trends, as is so often the case, Ross Perot may be running into trouble with some of his strongest supporters. A recent Field Poll finds that the Texan remains personally popular with the 21% of Californians who voted for him in last fall's Presidential election: 83% of Perot voters say they still like him. But only 38% agree that "what Perot is now saying or doing will help in solving the country's problems," down from 72% in May. And about one-quarter of Perot's 1992 voters say they would not be inclined to vote for him if he runs again in 1996.

GERMANY IS REUNIFICATION FAILING?



Try asking Gisela Kern about the freedoms she won after the reunification of Germany. Clutching a handkerchief and speaking rapidly, the 54-year-old eastern German brushes the question aside. After 30 years as an accountant in Frankfurt an der Oder, a grim city near the Polish border, Kern will soon be out of work. Next month she will be on the dole, collecting 60% of her \$14,370 annual salary. Her husband Manfred, 57, already has lost his job. Their rent has nearly quadrupled, to \$353, and their 26-year-old daughter is also pounding the pavement. Yes, Kern concedes, she can travel and speak high German, "but we're worse off now because we can't work."

Across the eastern landscape, the dismantling of communism has swept 5 million people into the ranks of the jobless. With 70% of its productive capacity shut down, the old industrial star of the Soviet bloc remains a heartbeat away from economic collapse. Propping it up is Germany's federal government, which is transferring \$120 billion a year from the prosperous west.

The bailout, ever more expensive, leaves Germany struggling to contain a huge deficit and emerge from its worst recession since World War II (chart). Germany's reunification crisis is also a critical problem for all of Europe's recession-plagued economies. Like a ball and chain clamped to Europe's biggest economy, eastern Germany has greatly reduced the country's ability to act as the Continent's economic locomotive.

NEW CHALLENGE. Worse, reunification is stalling just when western Germany faces its own painful restructuring to bring costs in line with world standards. Chancellor Helmut Kohl has warned Germans they must work harder to best Asian and American rivals—or see their country slide into second-class status.

It's a compelling irony. Germany—a country that rebuilt its economy from the ashes in 45 years of cold war—is facing its worst crisis in decades just

er achieving reunification, the greatest litical triumph of its recent history.

The crisis also stands in sharp contrast to Kohl's prediction that "blossoming landscapes" would emerge in the st by the mid-1990s. At the time of reification three years ago, the German Chancellor figured a combination of seed capital and west German knowhow would quickly transform east Germany's economy, which on paper, at least, looked surprisingly strong. After all, these were fellow Germans: With a little leadership, they would show the same drive that created West Germany's *Wirtschaftswunder*, the economic miracle of the 1950s.

That was the dream. The sad reality is a manufacturing base far more inefficient than ever imagined, a heavy dependence on the old Soviet Union for raw materials—now vanished—and environmental pollution on a massive scale.

But west German leaders were also to blame. They exported their high wages, generous benefits, and stifling regulations to the east—just when this brand of capitalism was beginning to flag under global competition. They also wrongly assumed billions in public spending would spark a big private investment boom. Moreover, the privatization of old state-run companies didn't create a new entrepreneurial class as quickly as hoped: It often shut down factories and laid out jobs. And western Germans argue that their new compatriots cling to an entitlements mentality developed over 40 years of communism.

CREPIT. This shock of collapse in the east and recession in the west has helped fuel fears that far-right extremists will profit from economic misery. Attacks against foreigners have resulted in 30 deaths in the past three years. Instead of shouldering new international burdens, the reunited country has ended inward, in a spasm of angst. "Either Germany must rejuvenate itself now, or it will slip into a deep crisis for years and years," warns Kurt Kasch, head of Deutsche Bank in Berlin.

Even though the Germans have failed to achieve a smooth and rapid unification, they have no choice but to plod on. Bonn is replacing eastern Germany's tattered economy wire by wire, brick by brick. Cranes are over every town-square. Digital telephone switches—\$16.5 million in investment to date—have wired the east for modern communications, and *autobahns* are being upgraded for the first time since the 1930s. Industrial sites polluted by years of toxic-waste dumping are being scoured, and new water- and waste-treatment plants built. Such infrastructure is needed, but so is hard-core manufacturing. Some world-class factories have sprung up, most notably Adam Opel's superefficient auto

plant in Eisenach. It's no accident that Opel's Eisenach plant is in Thuringia. That southern state, along with Saxony, has thousands of well-trained engineers and scientists. Saxon Prime Minister Kurt Biedenkopf wants to draw on this brain power to promote research and development projects and technologically sophisticated manufacturing.

Despite such prospects, the output of all eastern German companies still barely matches that of Daimler Benz. True, after plunging 50% from 1989 to 1991, eastern Germany's economy turned up 9.7% in 1992 and will likely maintain a

**THE NEW
ENTREPRENEUR
CLASS IS SLOW
TO EMERGE**

7% to 8% growth rate in coming years. But at that rate it will still take until the turn of the century to achieve 1989 levels of gross national product. Industrial production, which accounted for 60% of the economy under communism, has

plunged to 15%.

Meanwhile, two-thirds of the public funds pumped into eastern Germany still go to support otherwise unemployable workers. "The key point is that too much is going into supporting consumption and not enough into investment," says Bundesbank President Hans Tietmeyer. Union leaders' drive to bring wages up to western levels by 1996 is crippling fledgling eastern enterprises. As a result, most newly privatized companies stay alive by shedding as much as 90% of their original work force. While official unemployment is 15%, subsidized short-time and make-work programs boost that to 35%—and over 50% in many areas.

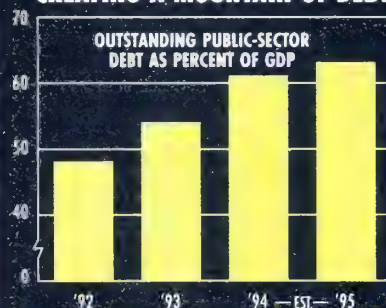
Deterred by these rising labor costs in eastern Germany, many western investors are opting instead for Poland, Hungary, or the Czech Republic, where wages are one-tenth to one-twentieth of eastern German rates. Along eastern Germany's depressed border, such Czech towns as Carlsbad and Teplice are attracting millions in fresh capital. Even companies in eastern Germany are moving production. Freiburger Precisions Mechanik, a \$4.8 million maker of construction survey equipment in Freiberg, has transferred 25% of production to Slovakia and Russia.

The privatization of former state companies was supposed to create a new class of capitalists in the east. The Treuhandanstalt, the state holding company charged with selling off the old communist combines, already has privatized or liquidated over 13,000 companies and will wrap up its business in March. But now, with the deals done, it seems many buyers had no intention of rebuilding the east. Instead, they bought the companies only for the real estate, or to shut out a potential competitor, or worse, to strip the assets and run.

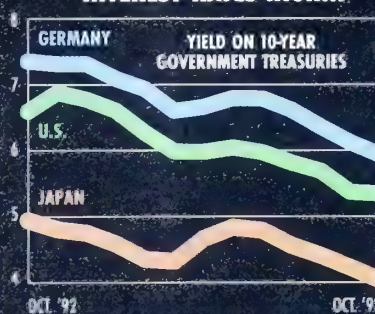
ALIENATION EFFECT. With recession biting, hundreds of new owners who promised to safeguard jobs are begging the Treuhand to renegotiate their deals. That's what's happening in Premnitz, a gray, dreary town of 12,000 about 60 miles west of Berlin, dominated by Märkische Faser. The sprawling chemical company once employed 7,200 people, but the work force has shrunk to 1,200 as the company struggles to turn a profit and boost productivity. The pain is not over. Swiss chemicals company Alcor Chemie bought Märkische Faser on the

WHERE THE PAIN OF REUNIFICATION IS THE GREATEST

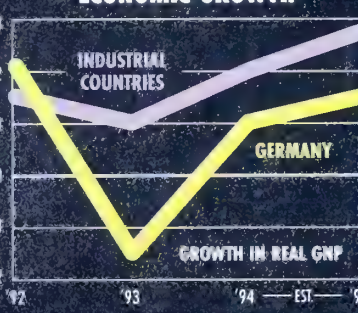
PROPPING UP THE EAST IS CREATING A MOUNTAIN OF DEBT...



...KEEPING LONG-TERM INTEREST RATES HIGH...



...AND DRAGGING DOWN ECONOMIC GROWTH



DATA: STATISTISCHES BUNDESAMT, BUNDESBANK, OECD, WESTLB, DRI/McGraw-HILL

assumption it could sell its products to Russia. Now that this market has collapsed, Alcor is battling with the Treuhand to get out of the deal and its \$36 million in promised investment.

The collective trauma endured by such towns as Premnitz is solidifying a psychological wall between east and west that could take a generation to come down. Easterner Rosemarie Sagner, sipping a glass of rosé and listening to Louis Armstrong in the trendy east Berlin bar 1900, appears to have smoothly made the transition from selling computers in the east to advising westerners on how to crack her home market. Even so, "I don't feel comfortable in the west," she confesses. "Maybe our children will be equals."

But it's also true that many in eastern Germany cling to the delusion that the state should always attend to their needs. "There's an unbelievable mental blockage among people who've been exposed to communism for 40 years, something we are not able to change," says Deutsche Bank Chief Executive Hilmar Kopper. Brake-components maker TTN, located south of Chemnitz, couldn't persuade 12 laid-off employees to return to work because they would rather collect unemployment checks.

LIFTING OFF. But on the other side of the psychological divide, disappointment in broken promises is rekindling a sense of pride in being eastern. "Now we're looking back to see what was good," says east Berliner Christa Kotré, working half-time as a lab technician after losing her job. Many feel betrayed that the west simply rushed in to make quick profits. "The greatest mistake was that we didn't organize a real unification," grumbles Dietrich Papsch, a beefy IG Metall union leader near Berlin. "We were simply annexed."

This resentment is stoking a revival of the far right. Germany's 1.6 million Turks and other *Ausländer* are being blamed for taking jobs from "real" Germans. "This influx of foreigners must be stopped," says Werner Müller, head of the right-wing Republican Party in Berlin, which got 9% of the vote in recent local elections.

Although social tensions thicken the gloom over unifica-



DERAILED: LABOR COSTS ARE CRIPPLING EASTERN INDUSTRIES

tion, isolated bright spots show eastern Germany does have the potential to eventually pick itself up. Some home-grown entrepreneurs are succeeding. Uwe Böhme, founder of Saxonia Airlines, has 19 employees and four light planes with regular passenger service to four airports. Startup Saxonia now has sales of \$2 million and is already profitable. To cut costs, Böhme's mother washes the linens.

New sectors like environmental technology are also making headway. East German Eberhard Günther, chief of refrigerator maker Foron, has designed a cooling system that eliminates fluorocarbons. His invention has won the backing of Greenpeace and an immediate customer base in international markets.

Germans need to hear such success stories as they struggle with a reces-

sion that's forcing wrenching change even in the west. After half a century of smug prosperity, western Germany now sees its competitiveness in such key industries as autos and electronics eroding because rivals in Asia and the U.S. have boosted quality and cut costs while Germany stood still. Yet with the highest labor costs and shortest working hours in the world, unions still are blocking any rollback in wages and benefits. But change is unavoidable. On proud giants such as Daimler and Volkswagen are no scrambling to slash jobs, freeze wages, and transfer production to lower cost nations.

"MORE PAROCHIAL." In this gloomy atmosphere, Kohl and his Christian Democratic Union face 19 federal, state, and local elections in 1994. And the electorate mood this time around is restless and angry. "Vote for Kohl?" scoffs Christa Kotré's unemployed husband Bernd. "He was more sympathetic to us when we were divided." For now, the opposition Social Democrats are weak. But enough protest votes channeled to the ex-communist PDS party, which polls now give 14%, could force the CDU into a coalition. That could leave Kohl to retire in ignominy and watch as a new leader finishes the job he started.

Can the job of reunification be finished? Politically, there's no way to undo the achievements of 1989 and 1990. Yet

welding east and west into a common *Volk* will probably consume Germany's attention into the next century and eat up billions more in public funds.

The implications of the struggle are enormous. "We thought that post-unification Germany would be more relaxed and outward looking," says parliament member Hans Klein. "But we are more parochial than ever before." That means European unity and a bigger global role for the powerhouse economy will take second place to the political, economic, and social drama unfolding internally. Germany is united. But for its sake and Europe's, it now must be made whole.

By Gail E. Schares
Frankfurt am der Oder and
Karen Lowry Miller in Dresden,
with Deborah Wise in Premnitz and William J. H. Stein in Berlin

WHY UNIFICATION IS STALLING

TRANSFER PAYMENTS

Too much of the \$120 billion that Bonn is transferring each year goes for welfare and jobless benefits and other forms of consumption, rather than investment.

WAGES

The push to bring wages up to western standards is going too fast, encouraging companies to move to cheaper Czech Republic or Poland. Result: Unemployment near 50% in some areas.

COMPETITIVE CROSSFIRE

The east's traditional markets in former Soviet bloc have collapsed. At the same time, eastern industries are exposed to blistering competition from Western Europe.

ENTERPRISE

After 40 years of belonging to a state-run system, most easterners have not developed the entrepreneurial drive that the west expected.

DONOR FATIGUE

West Germans are increasingly resentful about having to suffer higher taxes and stiff interest rates to prop up what they see as an inefficient east.

DATA: BUSINESS WEEK



ANCE TELECOM: A DEUTSCHE TELEKOM DEAL MAY INCLUDE AT&T BUT FACES EC LEGAL HURDLES

A COUNTERCOUP IN TELECOM

ow taking shape: A European supercarrier to rival BT-MCI

The news last June hit Paris and Bonn like a thunderbolt. For years the world's biggest phone companies had been cozying up to one another. At the landmark joint venture by British Telecommunications PLC and MCI Telecommunications Corp. to capture multinational corporate customers seemed the coup de grace for France Telecom and Deutsche Bundespost Telekom. The two companies, after 18 months of negotiations, thought they had MCI lined up as the critical U.S. partner for their fledgling global venture. But the BT-MCI deal suddenly sent their plan up in smoke.

Or did it? Sources close to the German and French companies tell **BUSINESS WEEK** that they are negotiating an audacious plan that could reorder competition in the global telecommunications market. If the pact comes off, possibly by yearend, the continent's first- and third-largest phone companies would merge a number of their businesses into a European supercarrier targeting business well beyond the top 300 corporate clients of their original plan with MCI.

IG THREE. What's more, the scenario could pull in American Telephone and Telegraph Co. as a third partner. Separately, the companies are now the top three players in international traffic (table). Together, their global reach—totaling cross-border revenues of \$15 billion—would extend

farther than the next eight-largest carriers combined. "They're negotiating a very big, secret deal," confirms a France Telecom director.

Already France Telecom Chairman Marcel Roulet and Deutsche Telekom Chairman Helmut Rieke have broached the plan with European Commission President Jacques Delors to make sure it won't run afoul of EC competition law, says a Brussels official close to the talks. "My strong impression is that the French and the Germans are trying to sew up the market first, then get in bed with AT&T," he adds. Both telecom chairmen declined to comment.

No one is surprised that the state-owned French and German companies

are drawing closer together, given the pressure from the BT-MCI deal and other liberalizing trends, especially the scheduled opening of mainstay voice services in 1998. For starters, the two European carriers might merge their data services operations. Other businesses, such as credit cards and leased lines that are used in building private networks, could also be combined. More important, the two could join forces to build Europe's first advanced multimedia network to carry data and, later, voice traffic.

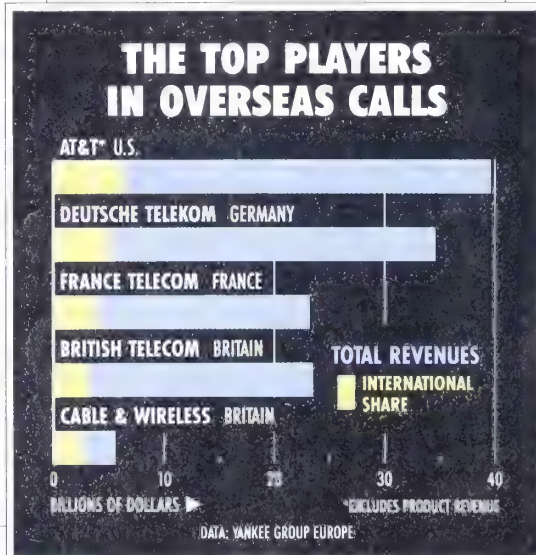
The French and Germans also have intensified negotiations with AT&T about linking their international networks. Since last summer, AT&T has been searching for one or two European partners to join its global corporate service called WorldSource. Now, while AT&T wouldn't invest directly in national carriers, it "might well take an equal equity participation in a new alliance" of the sort France Telecom and Deutsche Telekom are cooking up, says AT&T Vice-President Burt Wolder.

"INCONCEIVABLE." But obstacles remain. The Europeans fear they could lose more by handing over their big corporate clients to AT&T than they would gain in access to AT&T's U.S. accounts. "AT&T is demanding more than we can give," says one French insider. In the end, the deal may hinge on how much damage the French and German carriers think raiders like BT can inflict. Already, sources say, BT-MCI has offered discounts of up to 30% to many of their corporate clients.

Meanwhile, regulators in Brussels will have to weigh in. EC officials said last June, when setting the 1998 date for opening competition to foreigners, that they would look favorably on European cooperation. But any merger plan must pass several tests under EC law, including proving it would not "enhance a dominant position" in any important EC market. Given the size of Deutsche Telekom and France Telecom, "they're facing an uphill battle," says a Brussels competition attorney. BT, for one, would fight such a deal tooth and nail. Says a BT spokesman: "It's inconceivable."

But regulators may have a few cards to play. "Brussels could ask [France and Germany] to open their domestic voice markets to competition before 1998 as a quid pro quo," says Audrey Mandela, international vice-president for Yankee Group, a Boston market researcher. Such a step could even quicken the pace of liberalization. If so, Europe would see all-out war in telecommunications long before anyone imagined.

By Jonathan B. Levine in Paris, with bureau reports



THIS ISN'T YOUR USUAL CLINTON GABFEST

The laid-back APEC meeting signals a new U.S. focus on Asia

The setting is vintage Bill Clinton. On Nov. 20, the President and the leaders of 14 Pacific Rim economies will gather in a rustic lodge on Puget Sound's tiny Blake Island not far from Seattle to ponder their joint destiny. No suits or conference tables allowed. Instead, the host plans for everyone to relax in easy chairs to let the conversation flow and ideas bubble up.

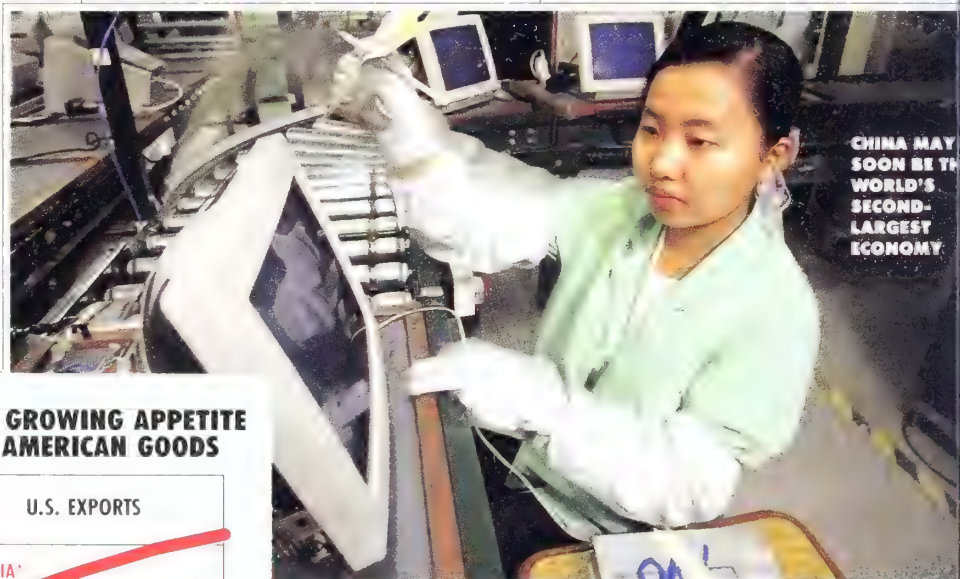
It would be easy to dismiss this global gabfest—the first Asia-Pacific Economic Cooperation (APEC) meeting attended by heads of government—as just another Clinton policy forum. But the conclave signals a major shift in how the U.S. views itself in a new world: Europe was the focus of U.S. policy in the 20th century, but Asia will increasingly dominate in the 21st. “Asia is probably going to be the most dynamic part of the world in the decades ahead, and we want to be there,” says National Economic Council Director Robert E. Rubin.

The timing of the APEC meeting couldn't be more delicate. It comes on the heels of the vote on the North American Free Trade Agreement on Nov. 17. If Congress spikes NAFTA, Clinton's grand hopes for the Asian confab could collapse in its wake.

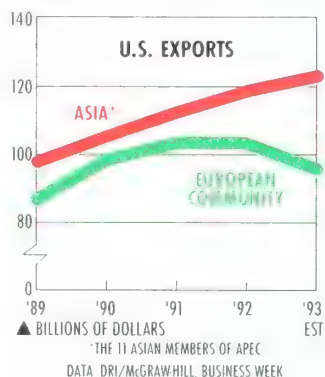
That would spell disaster, since future prosperity depends more on expanding trade with the booming economies of Asia than on preserving links to sluggish Europe. “We must get actively involved in Asia,” says Jerry R. Jenkins, chairman and CEO of Texas Instruments Inc. “We really have no choice. If we don't, we'll lose competitive position to those countries that do.” Indeed, APEC—whose Asian members include China, Japan, the Four Tigers, and the members of the Association of Southeast Asian Nations (ASEAN)—already has a combined gross domestic product of \$14 trillion, nearly equal to the \$15.7 tril-

lion GDP of the Group of Seven. By 2000, APEC will be larger than the G-7 and will dominate U.S. trade. According to DRI/McGraw-Hill, 40% of U.S. foreign commerce will by then be with Asian-Pacific nations, twice that with Europe.

Clinton wants to ensure that U.S. companies have easier entrée into those markets than they do now. His goal is to come away with a commitment to develop a blueprint for achieving an open market within a decade. APEC foreign ministers plan to meet for two days in advance of their leaders to move in that direction. They will ratify proposals for common standards and regulations in



ASIA'S GROWING APPETITE FOR AMERICAN GOODS



such industries as telecommunications, tourism, and aviation. But as persuasive as Clinton can be, no one expects the 15 APEC members to reach a consensus quickly. One rump APEC group led by Malaysian

Prime Minister Mahathir Mohamad fears U.S. domination over Asia and would prefer an all-Asian trade caucus that excludes the U.S., Canada, Australia, and New Zealand. Mahathir is likely to boycott the Seattle summit. And beneath the expected bonhomie at the conference, Tokyo and Washington are vying for stakes in Asia.

What's more, Washington will have to shift its trade approach if it hopes to win concessions. As the economic clout of the region grows, U.S. influence could wane. Trade experts worry that the traditional U.S. strategy of unilaterally demanding open markets and threatening sanctions may lose its sting as the countries become economically independent. However, the U.S. still acts as guarantor of the region's security. The role will have increasing allure as jitter about possible regional conflicts grows. Indeed, even as the demise of the Soviet Union has eased fears of a nuclear showdown in Europe, anxieties are mounting in Asia over North Korea's effort to develop nuclear bombs. Moreover, Washington is becoming more worried about the potential military clout of China as it blossoms into an economic superpower.

But Clinton has to balance strategic concerns against growing pressure from such companies as American Telephone & Telegraph Co. and Boeing Co., which

want to keep relations cordial in the world's hottest market. China is expected to supplant Japan as the world's No. 2 economy within the decade.

Clinton clearly has an ambitious agenda for the APEC meeting, maybe even pie-in-the-sky. But for all his foreign policy miscues, when it comes to confronting economic challenges, Clinton can be single-minded and convincing. Witness his performance at the G-7 economic summit in Tokyo last July. The APEC meeting will be a similar opportunity for Clinton. But this time the guests may be a tougher sell, and the stakes for the U.S. much higher.

By Douglas Harbrecht and One Ullmann in Washington, with Dori Jon Yang in Seattle and bureau reports

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HOSOKAWA IS POPULAR —BUT CAN HE DELIVER?

When shadow shogun Ichiro Ozawa installed Morihiro Hosokawa, head of the Japan New Party, as Prime Minister last August, analysts dismissed Hosokawa as a lightweight who wouldn't be able to hold his fractious seven-party coalition together for long.

So much for political punditry. Despite Japan's persistent economic woes, Hosokawa now enjoys a record 73.4% approval rating, according to a recent poll. "Hosokawa has an abstract, mysterious power to attract people," says Takao Toshiyama, editor of the political newsletter *Tokyo Insiderline*. But a lot of the ambitious reformer's appeal can be chalked up to his fresh, open style—a far cry from the long string of Liberal Democratic Party Prime Ministers.

The question remains, however, whether Hosokawa can parlay his popularity into effectiveness in parliament and influence over the powerful bureaucracy. He's about to find out. Between now and mid-December, Hosokawa faces big tests, including a crunch on political reform and battles over the rice market, an income-tax cut, and next year's budget. "The next few weeks will be the most decisive in Japan's postwar history," says International Trade & Industry Minister Hiroshi Sumagai.

ARVE-UP. Political reform is the top priority. Hosokawa has all but said he'll resign if he can't bring it off by yearend. He's aiming for a complete remake of Japan's electoral system. He wants to carve those current constituencies that elect two to five lower-house representatives into smaller, single-seat districts. He also wants to introduce a proportional-representation system that allots half of the Diet's seats according to each party's national showing. The idea is to curb the power of corruption-prone local organizations and encourage clean, issues-oriented politicians.

Public support for such change is so strong that few politi-

cians can afford to oppose it. "We can't insist on preserving the existing system just so we can regain power," says Liberal Democratic Party strongman Hiroshi Mitsuzuka. Still, the now minority LDP is lobbying hard for more Diet members to be elected locally, because of its strong grass-roots organizations. On the other hand, the Japan Socialist Party, the Hosokawa government's largest member, wants an even bigger slice of the seats to be decided on a national basis.

KING RICE. In the eventual compromise, Hosokawa and his patron Ozawa probably won't get all the political reforms they want. But handicappers say the two leaders can probably squeeze enough out of the current Diet by yearend to satisfy public opinion.

Rice is probably a more intractable issue. Hosokawa is under enormous international pressure to open—at least partly—Japan's rice market to help end the prolonged agony of the Uruguay Round of the General Agreement on Tariffs & Trade. While he is publicly holding out, signs are that he will soon cut a deal. But any liberalization is bound to enrage the huge numbers of Japanese who hold Japan's rice culture sacred.

Surprisingly, the emotion-charged issues of political reform and rice are much more important to Japanese voters than getting the parliament to enact an

economy-boosting tax cut and an expansionary budget. Unfortunately, that means Hosokawa can afford to defer to the bureaucrats who want to keep stimulus packages modest—probably killing chances for a recovery soon.

As long as he handles rice and political reform competently, he is probably safe until next fall. That's when electoral reform is scheduled to be implemented and when he'll likely call new elections. Then, he'll find out whether his ideas have really improved the system.

By Robert Neff in Tokyo



THE PRIME MINISTER GUNS FOR REFORM

GLOBAL WRAPUP

JAPAN AND NAFTA

President Bill Clinton has been telling Americans that if Congress does not sign off on the North American Free Trade Agreement, Japanese investors will rush into Mexico and use it as a low-cost manufacturing base to compete with U.S. industries. This may be an attention-grabbing argument, but it doesn't wash.

The fact is that Mexico makes Japanese companies nervous. Japanese manufacturers are turned off by Mexico's still iffy infrastructure and its sometimes low productivity. Japanese banks were badly stung by Mexico's economic crisis in the 1980s: They had

to write off \$4.3 billion in loans. There is now plenty of opportunity for Japanese companies to invest in Mexico to serve the U.S. market, but so far their total outlay comes to only \$1.68 billion, or 4.1% of total foreign investment. The numbers for American companies are \$25.4 billion and 62.5%.

Many observers think that a NAFTA seal of approval would actually make the Japanese more comfortable about investing in Mexico. For one thing, it would reassure them that Mexico's hard-fought economic reforms will continue when President Carlos Salinas de Gortari leaves office next year. "Our companies tend to invest in places where the rules of the game are clear

and enforceable," says a Japanese diplomat. "NAFTA would help accomplish that."

But for the few Japanese companies that have invested serious yen in Mexico, the trade agreement will be a double-edged sword. To boost the local content of their products so that they can market them throughout North America, they will have to either invest more in Mexico or buy more U.S. and Canadian components. For instance, under NAFTA Nissan's Mexican operation would have to boost its regional content—currently around 40%—to 62.5%, in order to export vehicles duty-free to the U.S. and Canada.

By Geri Smith in Mexico City

CAN EDS SHED ITS SKIN?

Customers now want more reengineering and less outsourcing

Will success spoil Electronic Data Systems Corp.? After years of seeing its "base business"—revenue that does not come from doing computer work for parent General Motors Corp.—grow by 25% annually, EDS has seen growth of non-GM business drop to 7%. It's the worst performance since GM acquired EDS in 1984. But it's not bad enough for Gary J. Fernandes, senior vice-president at the computer-services giant. Fernandes' problem? By yearend, growth will be back to double digits, and EDS executives and employees might not recognize what Fernandes sees as an urgent need to update EDS' strategy. "We need to change attitudes," he says. "In a way, [IBM CEO Louis V.] Gerstner's task is easier because they know if they don't change, they die."

EDS, on the other hand, could go on for years without suffering IBM-style traumas. But, just as new technology and new ways of using computers began overtaking IBM's bread-and-butter mainframe business in the 1980s, Fernandes sees the seeds of a slowdown in EDS' core business. Today that business, called outsourcing, is already suffering margin pressures as new competitors—notably IBM's Integrated Systems Solutions Corp. (ISSC)—try to grab market share with lowball pricing.

More important, the basic business is changing. EDS prospered in the past decade by outsourcing the data-processing operations of clients such as Continental Airlines Inc.—taking over or buying their computer centers and then selling data-processing services back typically for a flat fee over a fixed period. The first big change is the move from mainframes to new "platforms" including networks of personal computers. With that shift, there's less demand for EDS' core talent: providing lots of software engineers and technicians to write programs from scratch and keep them running in giant data centers. In the new networks, it's often possible now to build applications by stitching together off-the-shelf software packages.

So customers are looking for some-

thing different from companies such as EDS. Instead of simply cutting costs by outsourcing, some corporations want computer-services companies also to act as management consultants to help "re-engineer" key business processes. That's an area where companies such as Computer Sciences Corp. (through its Index subsidiary) and Andersen Consulting have established strengths—and where EDS must invest heavily. Long-term, such consulting work will be key for EDS: Fernandes estimates that for every dollar of consulting work, the company will get \$7 to \$8 worth of systems-integration work downstream.

MEGACONTRACTS. Before then, Fernandes acknowledges, \$8.5 billion EDS may be in for a rocky transition. It must plow money into consulting and beef up its skills in creating what he calls "future" systems. These include so-called client-server PC networks and multimedia systems merging computers, telecommunications, and video. CEO Lester M. Alberthal Jr. says that since abortive talks with British Telecommunications PLC earlier this year, he has talked with virtually every telecommunications company about strategic alliances for the information superhighway. But no deal appears imminent. While EDS juggles all this, it must contend with declining market share (chart).

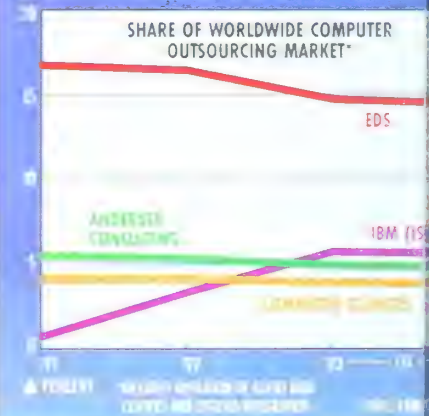
One avenue Alberthal rules out is selling EDS lock, stock, and barrel. "We've got no interest in trading one owner for another owner. That does not preclude any kinds of discussions that make business sense where equity might be part of the discussion."

Near-term, EDS has little to worry about. It has signed a record \$4.3 billion worth of new business this year, and it has at least \$11 billion worth of potential deals in the pipeline. And analysts expect EDS may soon land one or two megacontracts not counted in that figure: a \$1.5 billion, 10-year deal to run computers for Britain's Inland Revenue Service; a \$2 billion contract with British Aerospace; and a multibillion-dollar pact with Lufthansa. Winning any of these deals will also help expand EDS' overseas



TO COUNTER LOSS OF MARKET SHARE...

SHARE OF WORLDWIDE COMPUTER OUTSOURCING MARKET*





business, another key objective. And, predicts Stephen McClellan of Merrill Lynch Capital Markets, earnings will climb 15%, to \$730 million this year, and will jump 14% in 1994.

The rosy estimates assume that EDS can keep a step ahead of an increasingly aggressive pack. "There's competition like they've never had before," says Julie A. Schwartz, associate director of professional services for market researcher Dataquest Inc. CSC, which had stuck to the federal computer market, has now branched out to bid against EDS in the U.S. and overseas. And IBM's ISSC has used aggressive bidding to grab market share. "They've underpriced," says Morton H. Meyerson, chief executive of Perot Systems Corp. and one-time EDS executive. "It's created choppy seas in the outsourcing market."

EDS figures IBM can't sustain the price-cutting for long. But an ISSC spokesman says the company has no plans to alter its strategy. In the meantime, EDS is not bidding where it can't meet its profit targets, says EDS Chief Financial Officer Joseph M. Grant. For instance, EDS backed out of competing last year for a \$3 billion, 10-year outsourcing contract with McDonnell Douglas Corp. because it felt the deal would provide pretax margins of only 7%-8%, well below EDS' 12%-to-13% threshold.

EDS' selective bidding is "a prudent long-term move," says analyst David M. Togut of First Boston Corp. "But in the

The other area where EDS must catch up—in perception if not reality—is in non-mainframe technology. Increasingly, client-server setups, in which desktop client computers grab programming and data from low-cost "server" machines, are the favored information systems. Gartner Group Inc., a consulting firm, estimates that commercial client-server work was just \$70 million, or 1%, of EDS' non-GM revenue last year. That compares with \$119 million, or 55%, for Canada's SHL Systemhouse Inc. and \$435 million, or 15%, for Andersen. "EDS will eventually turn the battleship in this new direction, but right now we're a PT boat, and they're surrounded by other PT boats," says Greg M. Jacobsen, who left EDS in July to become executive vice-president of SHL.

SHL seems a thorn in Alberthal's side. It recently won a small client-server contract with the Dallas Market Center, which was halfway through a traditional, 10-year outsourcing deal with EDS. It also bested EDS in a bid to develop a new point-of-sale system with Taco Bell and KFC Corp. "SHL didn't try to fit what we were talking about within the classic products that they sell," says Susan H. Cramm, vice-president of Taco Bell's information-technology group.

"MORALE BUSTER." Still, for EDS, "mastering the technology will not be the challenge," says Donald P. Monaco of Andersen Consulting. Rather, it will be restructuring the organization to sell client-server systems "in

a profitable way," he says.

And that means continued cost-cutting. Already, staff cuts helped boost operating

margins in the third quarter to 14.2%, from 12.5% a year ago. EDS has quietly cut jobs and cracked down on travel, bonuses, and equipment purchases. By yearend, it may have shed as many as 2,000 of its 71,000 employees.

But it's not easy to convince a company built in the image of founder Ross Perot and one with still-decent profits, that it faces limitations. Jacobsen of SHL says EDS' so-called fiscal-fitness program prevented him from paying bonuses to his subordinates before he left in July, even as EDS was building its eye-catching headquarters in Plano, Tex., and ordering corporate jets. "It's a real morale buster," he says. The key question, says Kirk M. Klasson, an analyst with the Yankee Group, is: "Have they got the fortitude to change with the market and manage their operating expense and economic model accordingly?" EDS can do it now—Fernandes' way—or risk having to use the IBM shock treatment later.

By Wendy Zellner in Plano, Tex., with bureau reports

H. MICHAEL GLEASON WAS HIRED TO REV UP CONSULTING. SAYS GLEASON: "WE WILL BE A BIG PLAYER"

near term, it could depress revenue growth." On the other hand, EDS notes, the low bid doesn't always win. It landed a \$1 billion deal with Sweden's Kooperativ Forbundet, a union of business co-ops, even though IBM bid lower, says Grant. He credits the "value" EDS brought to the table, namely, technical knowhow—the value of which helps determine what EDS gets paid.

CATCH-UP. Increasingly, the "value added" will be in business reengineering—telling a customer, for example, how to revamp an entire warehouse operation, not just the computer system. To build such business, Alberthal has hired H. Michael Gleason, former managing partner of Coopers & Lybrand's Management Consulting Services Group. Gleason, 52, won't say how many consultants he has recruited or what his revenue targets are. (Fernandes says consulting is a \$100 million business at EDS, growing at 30% to 40% annually.) But he insists EDS will stand out. "That's a big market," says Gleason. "We will be a big player."

EDS IS WORKING ON THESE AREAS

- slashing costs to be more competitive
- expanding efforts in client-server setups
- hiring more consultants for reengineering
- seeking deals with telecommunications partners
- pushing for more overseas business

WELL, IT WALKS LIKE AN EXPANSION

Much of Corporate America thinks the rebound is for real this time

The on-again, off-again U.S. recovery is suddenly showing signs of real oomph. You see it in the day-to-day changes that make an economy go: Women are buying shoes again; cardboard-box sales are up; a refrigerator factory in Anderson, S. C., is adding 150 workers. And a bevy of recent government statistics buttresses the feeling that the economy is turning around. Since the sluggish first quarter, consumer spending has grown at an annual rate of nearly 4%, while business investment in capital equipment is up more than 14%. Bolstered by the spending, the economy expanded at a healthy 2.8% annual clip during the third quarter.

But get down and dirty in a discussion with corporate executives, and they all have the same worry: Is the rebound for real? After all, things picked up even more during 1992's fourth quarter, when the economy grew at a 5.7% annual rate. Then the bottom fell out at the start of 1993.

This time around, Corporate America figures the upturn is genuine. Executives say they expect a solid fourth quarter and predict that steady consumer demand and healthy business investment, combined with a pickup in exports, will produce a solid—if unspectacular—1994. But optimism is hardly rampant, and some executives still harbor reservations. "People are nervous," says Intel Corp. Chief Operating Officer Craig R. Barrett. "But things still feel good."

CHIPS AND CARS. As it happens, Barrett's industry is one that expects to do reasonably well. With personal computers selling as fast as they can be built, demand for chips is soaring: Sales are up nearly 30% worldwide this year. Many old-line industries are in a similar mood. Auto sales, for instance, are up

about 8% so far this year vs. 1992, and the fourth quarter is expected to be at least as strong. Producers are boosting output by 12.5% to rebuild depleted inventories and meet stronger demand, says *Ward's Automotive Reports*. Next year? Maybe an 11% pickup.

Detroit isn't turning handsprings, however. "The sales improvement you're seeing is off very low levels," says Ford Motor Co. Treasurer David N. McCammon. At General Motors Corp., Chief Financial Officer G. Richard Wagoner's

worries go beyond the company's deep problems. "What's keeping me awake at night?" he asks. "The thing that we can't control is the economy. We're hoping it won't go down the tubes."

While Big Three executives still are just dipping their toes in the pool of optimism, some of their suppliers have jumped in with both feet. Auto-parts makers are enjoying a strong year and predict an even better 1994. Echlin Inc., a Branford (Conn.) maker of gaskets, brake pads, and the like, is coming off its best quarter in five years—unit volume was up 3%—and is expecting more of the same next year. The reasons: a big increase in repair and maintenance work and a boom in truck sales. Cleveland-based Parker Hannifin Corp., which makes hydraulic and pneumatic components and other industrial parts, says North American orders for such goods rose some 15.8% in the past quarter. And CEO Duane E. Collins says the U.S. economic upturn seems "pretty broad-based."

This year's housing rebound—sales reached a seven-year high in September—has begun to lift the spirits of home-related industries. Through September, appliance shipments jumped nearly 5% from last year. Furniture

Consumers are busy snapping up computers, cars, and refrigerators, yet polls reveal that most people continue to feel rotten about the economy

FURNITURE



BUSINESS IS STARTING TO BELIEVE

Auto makers are still cautious, but the rebound in housing is good news for furniture and appliance makers

AUTOS



sales are up, too. And carpeting. Shaw Industries in Dalton, Ga., has its sales increase by 32% over the year, so CEO Robert E. Shaw is feeling pretty good—sort of: "The numbers are better. But they're not fantastic yet."

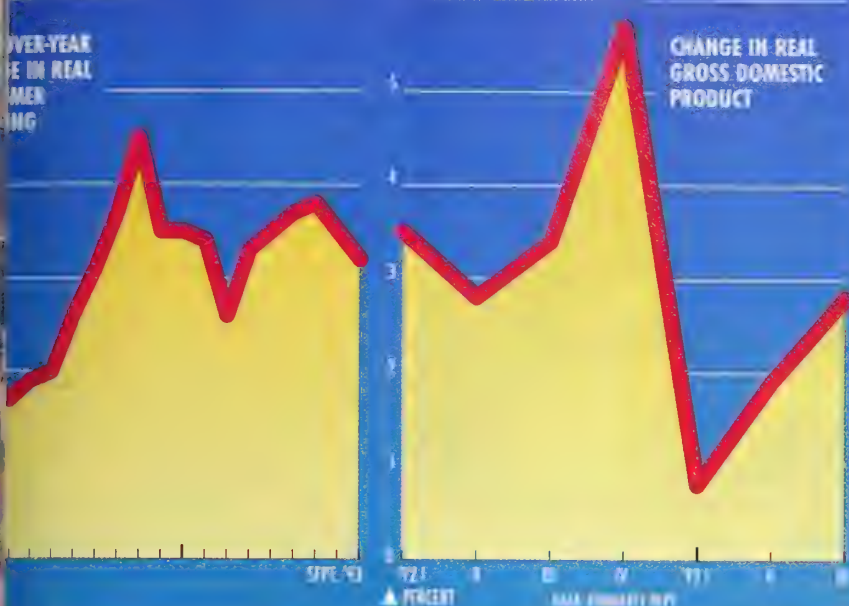
Count Tenneco Inc. CEO Michael Walsh in the bearish category, too, matter where you go, there's just an enormous amount of insecurity,

CONSUMERS ARE
IN FORCE...

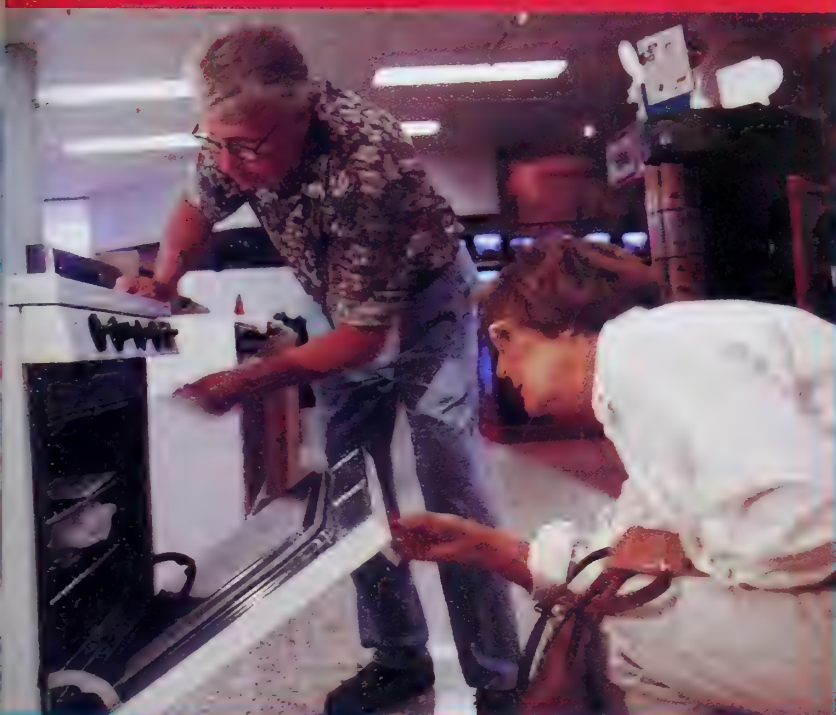
...BUT CAN THEY BOOST
THE ECONOMY?

OVER-YEAR
CHANGE IN REAL
GROSS DOMESTIC
PRODUCT

CHANGE IN REAL
GROSS DOMESTIC
PRODUCT



ANCES



"There's a kind of sour mood in the country." But some of his own staff, including the president of Packaging Corp. of America, a Tenneco unit in Evanston, Ill., is more upbeat. Industry demand for cardboard boxes is up 3.2% through September, and President Monte Haymon expects the company to raise the year up 4.5% to 5% in unit sales. "We've had false starts in the past,"

says Haymon. "But we're a little more enthusiastic about this one."

One reason for the confusion is that consumer attitudes remain something of a mystery. Consumer confidence surveys show that people still feel rotten about the economy. Yet consumption rose 0.3% in September from August.

Some of that activity may simply represent pent-up demand for necessities

rather than splurging, says Jerome Fisher, chairman of Stamford (Conn.) shoemaker Nine West Group Inc. So far this year, the company's sales are up by more than 18%. And Fisher feels even better about the rest of this year. "We're much more optimistic than we were in the third quarter," he says. "In the last two or three weeks, there's been a slight upturn in confidence. You can sense it in the air." At Sears, Roebuck & Co., where same-store sales have increased by more than 10% over the past four months, Chairman Edward A. Brennan agrees: "Things are going better than we thought two or three months ago. I don't think it will cool off."

EUROPE STIRS. That may bode well for Christmas. But it doesn't mean retailers are stuffing their shelves. One sign of managers' unease is that they are keeping inventories lean. According to the American Production & Inventory Control Society's business outlook index, total inventories have been steadily falling since February. Companies are producing just enough to meet demand. "Most business executives are still skeptical about the durability of any upturn," says economist Michael K. Evans, who developed the index. "They feel they got burned in '91 and '92 and don't want to make the same mistake."

Yet the index shows that both shipments and new orders are strong. And other surveys report that even exports, which have been stuck in the doldrums thanks to the European recession, may be picking up. Roulston & Co., a Cleveland investment firm, found in a recent survey that Great Lakes manufacturers are seeing sales growth in Mexico and South America, as well as the Pacific Rim. And about 14% say European sales are up in the past two months.

The labor market, however, still seems feeble. The American Business Conference survey of its members shows that they expect big increases in sales, margins, and investment in the fourth quarter—but only a modest 2% rise in employment. The economy is adding about 150,000 jobs per month, but that just doesn't feel strong to employees still worried about layoffs.

The bottom line: Optimism is growing, but executives remain guarded. Jobs are being created, but with many companies still restructuring, productivity gains will likely keep employment growth slow. Consumers are spending—for now. Put it all together, and Corporate America hopes the scales are weighted in favor of an on-again, off-again recovery that's on for the duration.

By Howard Gleckman in Washington, with Chris Roush in New Haven, Zachary Schiller in Cleveland, and bureau reports



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TURNING UP THE GAS AT BURGER KING

It's discounting burgers and dumping yet another ad campaign

Hurricane Andrew nearly destroyed Burger King Corp.'s headquarters in Miami last summer. At the Sept. 30 dedication of the rebuilt Home of the Whopper, CEO James B. Adamson was busy twirling a star-shaped sheriff's badge in front of his new boss, Grand Metropolitan PLC CEO-designate George J. Bull. Inscribed on the badge: "Cut the bull. What's the discount?" It was a pun on Bull's name, of course. But Adamson joked that the badge, which had been given to him by Burger King co-founder James W. McLamore, was a marketing slogan for the Nineties.

For Burger King, it probably should be. While hamburger rivals McDonald's and Wendy's introduced "value meals" years ago, Burger King has resisted discounting. Many franchisees worried that lowering prices would cut into their margins. But high prices, coupled with a series of disappointing ad campaigns, stalled the burger chain's sales growth and eroded its market share. In 1992, McDonald's sales grew 5.8% and

Wendy's jumped 12.6%, while Burger King's sales rose just 2.7%, to \$5.3 billion. Meanwhile, its share of the \$32.8 billion burger market fell to 16.2% from 16.6% in 1992, estimates Technomic Inc., a Chicago restaurant-consulting firm. Says Adamson, who took over as CEO in July: "We know we have the brand and quality, but we were overpriced."

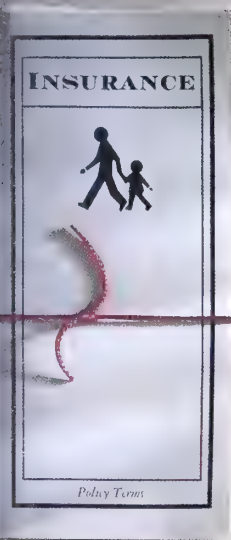
That led Adamson, a former Revco D.S. Inc. marketer who joined Burger King in 1991 as president of its company-owned outlets, to try the "value menu" in local promotions this summer. On Oct. 4, he launched the national roll-out of a three-tiered value menu that offers 99¢, \$1.99, and \$2.99 specials at breakfast, lunch, and dinner. McLamore was pleased: The 67-year-old Burger King founder and chairman emeritus is big on meal-deals as a means of generating traffic and has been tutoring Adamson once or twice a week on the finer points of selling fast food. "We weren't addressing the value issue properly, and I brought that into focus," says McLamore.

Having McLamore's backing helped Adamson act quickly. Two weeks after he rolled out the new pricing structure, Adamson made another big move. On Oct. 20, he told D'Arcy Masius Benton & Bowles, Burger King's ad agency since 1989, that he was putting the count up for review. Adamson says he wants an agency that can promote a back-to-basics philosophy. "It's the simple approach that Jim McLamore took years ago," Adamson says. "We sell burgers, fries, and Cokes, and we have to get the message out that we do better than anyone else."

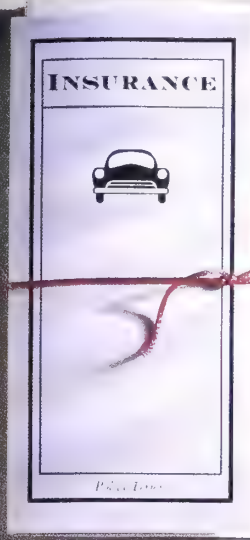
"POISON PILL." Burger King franchisees have heard that kind of talk before from Adamson's predecessors, who came in as the chain's market share steadily eroded (chart). The franchisees have grown especially fractious since Grand Met bought Burger King along with parent, Pillsbury Co., for \$5.8 billion in 1988. Now they hope that McLamore's involvement will invigorate the chain much as Wendy's avuncular founder Dave Thomas did when he returned to star in Wendy's ads. "If Adamson listens to McLamore, we have a shot," says Manny Garcia, a franchisee who owns 58 restaurants in the Orlando area. Bull, who will become Grand Met CEO in December, dismisses franchisees' gripes about the London-based conglomerate's management of the chain. "When we consider that Burger King was regarded as the poison pill for Pillsbury, we've done very well with it," he says.

But that's exactly the problem,

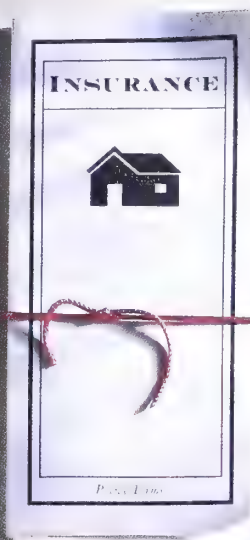




Life.



Auto.



Home.

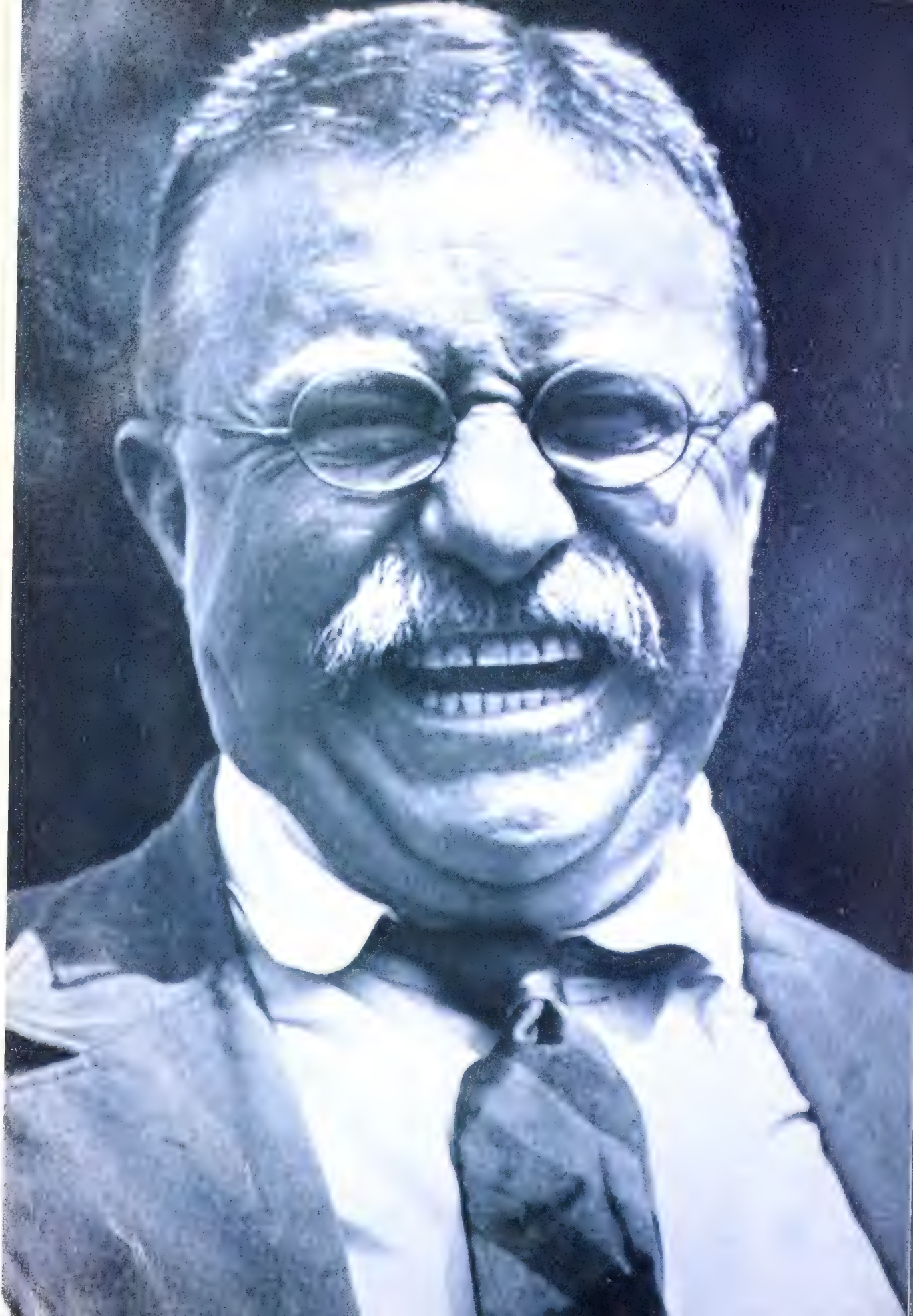


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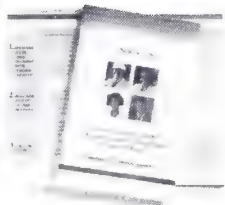


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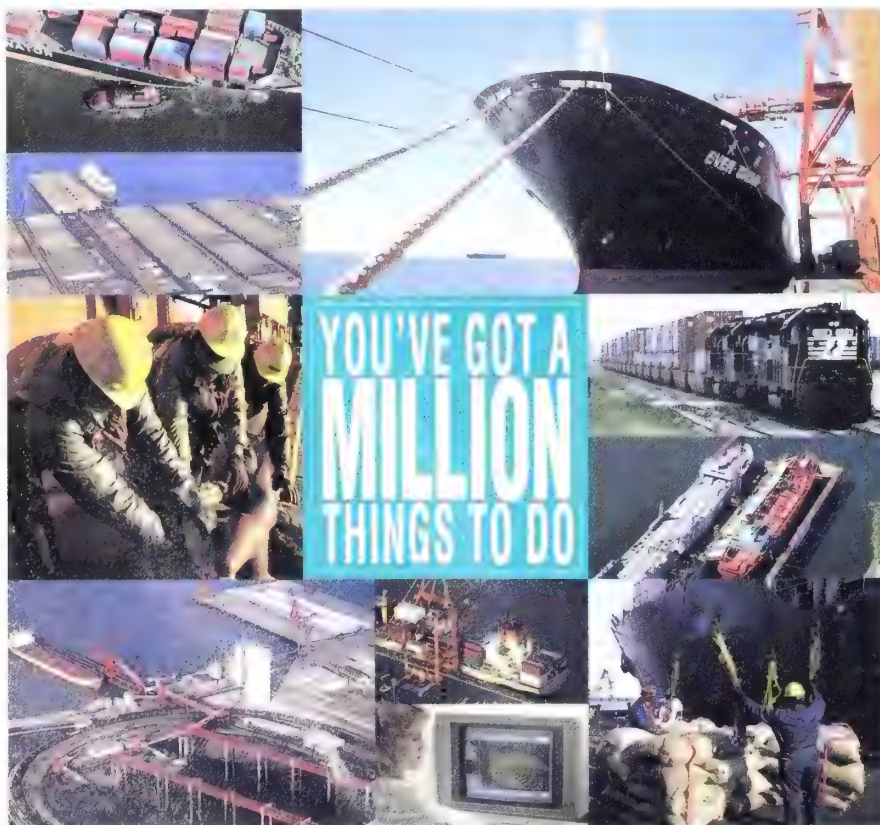
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Marketing

franchisees: Burger King managers have been bent on giving Grand Met a healthy return on its investment, largely by slashing costs. For example, they cut back on field staff that helped franchisees with marketing campaigns and solved operating snafus. Franchisees also faulted Adamson's predecessors for allowing too many mediocre ad campaigns to go on too long (chart, page 62).

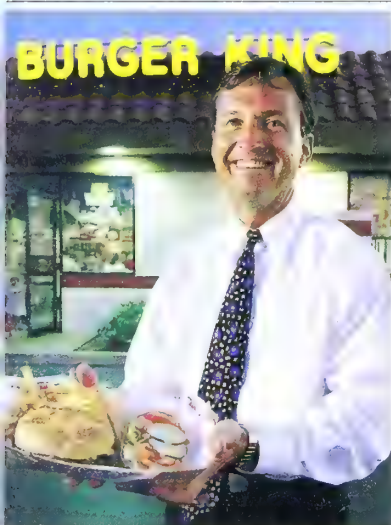
Franchisees give Adamson, Burger King's ninth boss since 1980, high marks for his management style. "It's not that I'm succumbing to their demands," says Adamson. "I'm listening to their logic." That means meeting with franchisees regularly in their restaurants—and donning a uniform and broiling a burger when he gets there. "I know how to make a Whopper," he says. "I do it all the time." He has taken orders at the front counter, cleaned the dining rooms and bathrooms, and noted customers' eating and sitting patterns. "Adamson has spent as much time in the restaurants as the last three or four chief executives combined," says Steve Louis, a franchisee who owns 26 restaurants in the Philadelphia area. "He believes in us, and that's what's so refreshing."

NO MORE TACOS. Adamson and franchisees agree on the need for a refreshing new ad campaign. This will be the fourth new campaign in five years, and all are hoping for something more effective and less irritating than "BK Tee Vee." The ads were supposed to appeal to the 18-to-34-year-old crowd. They featured frenetic editing and quick close-ups of MTV veejay Dan Cortese interviewing customers and screaming: "I love this place!" But the spots were more about frenzy than food, and franchisees thought they turned off older customers.

Adamson is also changing the way Burger King's ad dollars are spent. The company's annual marketing budget is about \$250 million, of which roughly \$180 million goes for TV and radio ads. Three years ago, that budget was devoted to building brand awareness with national advertising. Now just 40% of it is spent on national ads, while the rest goes for local spots pushing deals on meals. "We'll win this battle of fast food in local markets," vows Adamson. To help Burger King do that, more than half the franchisees opted to pay a surcharge—1% of gross sales—to help fund additional local ads.

Many of Burger King's critics say the chain's problems stem not just from advertising but from spotty food preparation and slow service. "Flame-broiling burgers, rather than flat-grilling them like McDonald's and Wendy's do, is a key for Burger King," says Gary Langstaff, a former Burger King marketer. "But it's a lot tougher to do." And some

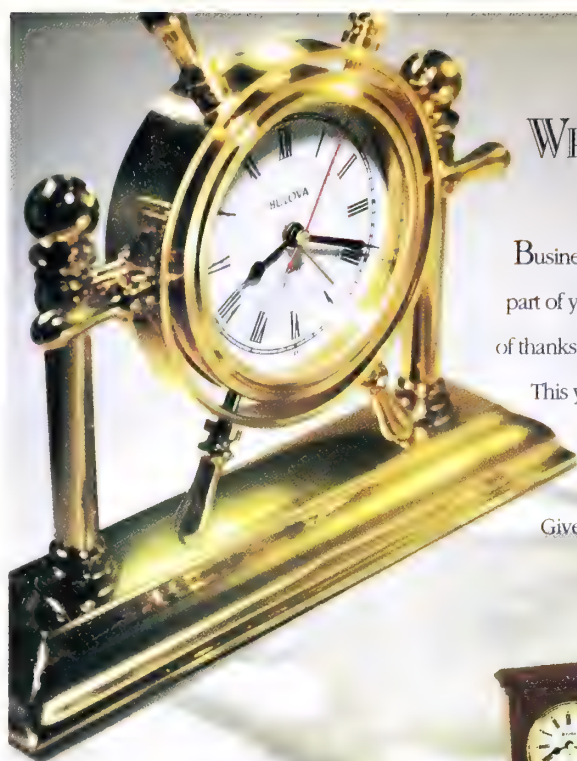
franchisees argue that the broader menu recent years just made things worse. "much variety begets operational difficulty," admits Adamson, who's been tling down the menu. Gone are pizza, s, Famous Amos cookies, Snickers cream bars, and Paul Newman's salad sing. Dinner Basket, a program that order-takers delivering meals to take, is now a limited local option, as is ger King's Weight Watchers program. o help his franchisees improve sales, ity, and service, Adamson has inuced a six-point program called Option Phoenix. The program evolved of a meeting between franchisees Burger King's executive committee, hich franchisees warned that Burger g wouldn't keep producing satisfacto-



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returns for Grand Met if individual aunts weren't healthy. The pro n offers franchisees help from head- ters with menus, pricing strategies, local ads. "Burger King has not end the same preeminence as it has in past," says Jerry Ruenheck, owner 2 Tampa Burger Kings and presi- t of the National Franchise Assn. eration Phoenix will get us there." urger King's rivals aren't making it easier for the chain to rise from ashes, though. Wendy's International- nc. recently posted its 18th consecu- quarter of year-over-year sales is. And McDonald's Corp. noted a jump for the first nine months of 3. Small wonder that some franchi- s remain skeptical. "We are cynical," s franchisee Dan Fitzpatrick. "We t to see results, and Adamson knows And given the speed at which Bur- King wolfs down ad campaigns and CEOs who order them, Adamson ly knows those results had better e fast, too.

by Gail DeGeorge in Miami, with Julia m in London



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LORDS OF LEVERAGE FOR THE '90s

While its rivals hibernate, Clayton Dubilier is thriving on LBOs

These are supposed to be sleepy times for leveraged-buyout firms. Humbled by hard-learned lessons of the deal-crazed 1980s, such powerhouses as Kohlberg Kravis Roberts, Forstmann Little, and Wasserstein Perella have slipped largely into hibernation. But at least one buyout boutique, Clayton, Dubilier & Rice Inc., appears to be stirring. Since the start of the year, it has snapped up three companies. The most recent deal came on Oct. 22, when Clayton Dubilier agreed to acquire DuPont Co.'s Remington Arms Co. rifle-making unit for \$300 million. And it hints at yet another buy before the end of the year.

The Remington deal is a typical one for Clayton Dubilier. Since its founding in 1978, the firm has specialized in buying what President Joseph L. Rice III calls the "stepchildren" of giant parents looking to shed assets. In September, it bought Indianapolis' Allison Gas Turbine, which makes turbines for small jet engines, from General Motors Corp. for \$300 million. Clayton Dubilier figured Allison, like Remington, represented an inherently strong business that could flourish if separated from its distracted parent.

SCOUTING. Clayton Dubilier gets involved in every aspect of its various businesses, from marketing to research and development. Like other LBO firms, of course, it cuts costs—often by selling assets and laying off employees. But it also works to build up its properties. Just days after acquiring Van Kampen Merritt Inc. from Xerox Corp. in February, for example, the firm began scouting for acquisitions to expand the investment bank's range of products from fixed-income se-

curities to equities and global products. Clayton Dubilier says it's in talks to acquire four separate firms to add to Van Kampen. "We hope to end up with a far more diverse financial-management company than the one we originally bought," Rice says.

Although Clayton Dubilier sets its sights lower than other LBO firms, which tend to go after big public companies, the gritty, roll-up-your-sleeves approach

Management, an investor in the fund.

The resumé of Rice, 61, resembles that of a typical LBO expert. A former securities lawyer at Sullivan & Cronin, well, Rice has spent the bulk of his career in the investment game. But Clayton Dubilier's culture places as much premium on managerial savvy as it does on financial engineering: Four of its 11 senior partners formerly served as chief executive or chief operating officer of a big company—something none of KKR's senior partners can claim. Clayton No. 2 partner, B. Charles Ames, for example, is a former chairman and CEO of Reliance Electric Co.

That emphasis on operations was underscored in June, when Westinghouse Electric Corp. tapped Clayton Dubilier partner Michael H. Jordan to run the embattled industrial giant. Jordan had joined the firm in September, 1990, after serving as president and chief financial officer at PepsiCo Inc. "They are not a bunch of lawyers and financial e-



Hands-on:
Many of the firm's partners were formerly managers. Clockwise from bottom center are Ames, Andrall Pearson, Gogel, Cribiore, Rice, and Howe

is paying off for investors. Investors in Clayton Dubilier's \$1 billion LBO fund say they are reaping cash returns in excess of 40% a year on companies the firm has acquired and then sold. In contrast, KKR's biggest LBO fund is averaging returns in the mid-teens, say Wall Street sources, in part because of protracted problems at RJR Nabisco Inc. Clayton's returns "are high through up and down cycles because they know how to improve the operating efficiencies and bottom lines of their companies," says Scott Sperling, who runs Harvard

Business School. "They are not a bunch of engineers who don't know much about running a business," says Carl Kester, a professor at Harvard business school who has studied Clayton Dubilier.

Like other firms, Clayton Dubilier moves quickly to assume control of companies it acquires. Within days of closing a deal, it assigns two of its senior partners—one an operating executive, the other a number-cruncher—to the board. It's also quick to link pay to performance. When it acquired lawn-care company O.M. Scott & Sons Co. from ITT Corp. in 1986, it required senior mana-



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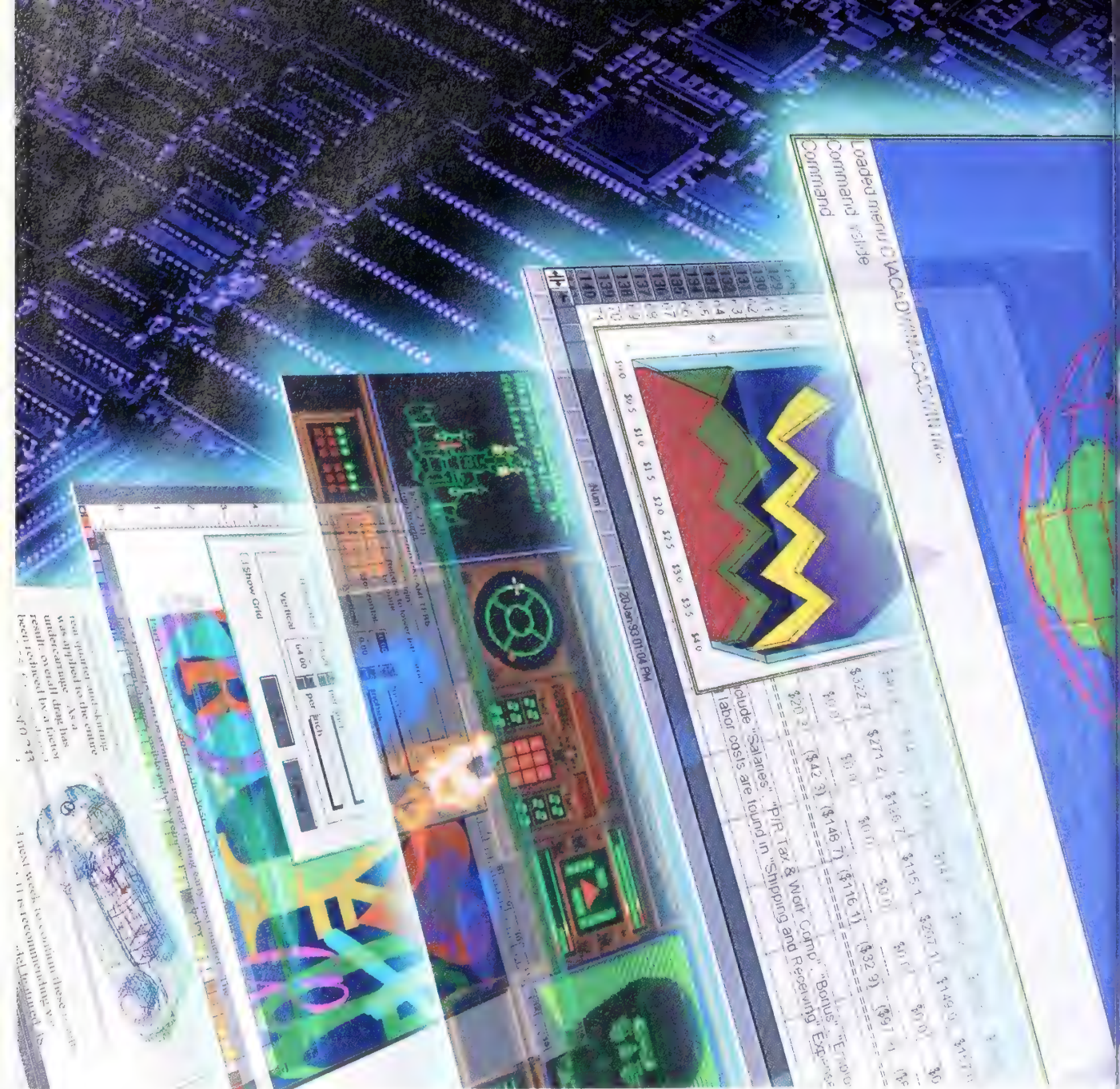
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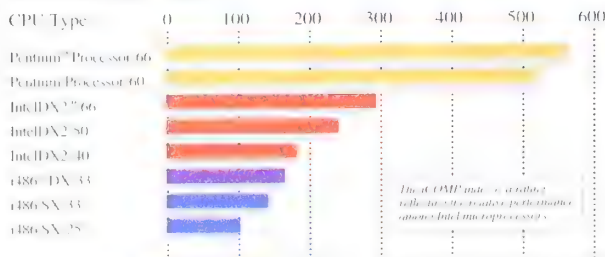
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The Corporation

ers to buy 12% of their own company's shares. Remington's managers will acquire 15% of the company.

Like its Wall Street rivals, Clayton Dubilier also moves quickly to boost productivity. And that means cutbacks can sometimes be steep. That was especially true at Lexmark International, formerly IBM's typewriter division. Since Clayton Dubilier bought the unit in 1991, it has trimmed Lexmark's payroll by a third, to 4,000 staffers.

But Rice says the firm often discovers that the companies it acquires need nurturing, after years of neglect by parents preoccupied with their own problems. Consider Nu-kote, a former Xerox division that makes typewriter supplies. When Clayton Dubilier bought the company in 1987, nearly 98% of its business was selling typewriter ribbon. The popularity of personal computers, however, made the outlook for that market dim. So Hubbard Howe, a senior partner at Clayton Dubilier, began to shift the company into toner for laser printers and fax machines.

It was an expensive strategy. In 1992, the firm acquired International Communication Materials Inc., a Pittsburgh toner maker, for \$8.5 million. A year later, Clayton purchased Future Graphics, a Chatsworth (Calif.) company that repairs toner cartridges, for \$5.5 million. The result: Toner and toner-related supplies account for 37% of the company's \$175 million in sales. "Now that the shackles are off the business, we have room to grow," says David F. Brigante, Nu-kote's CEO, who was a sales manager when the company was first acquired.

LAWN BOOM. Similarly, when Clayton Dubilier bought Scott, the company had only a dozen lawn-care products. Its sales were stagnating at \$197 million. But Henry Timnick, a former senior partner overseeing Scott, reckoned the industry would grow steadily as baby boomers settled in the suburbs and started putting around the yard.

To strengthen Scott's consumer business, Clayton Dubilier purchased Hypox Corp. in Atlanta, a private-label potting soil company, in 1988. The deal virtually doubled the size of Scott's consumer business, to \$328 million. Next came new products, as Clayton Dubilier began a long-term program to expand Scott's product line and customer base. The firm steadily boosted Scott's R&D spending. In 1992, it stood at \$5.9 million, up 40% from 1987. And now, Scott is reaping the benefits. Next year, the company will offer 43 new products ranging from crabgrass preventer to potting soil for African violets.

Besides strategy and marketing, Clayton Dubilier gets involved in the details

of manufacturing. To improve quality and productivity at Allison, the firm has started to overhaul the assembly line by organizing workers into separate teams to manufacture specific products. "We'll constantly be trying to spur management to think of new ways to do things," says Donald J. Gogel, a partner overseeing Allison's finances.

To win greater cooperation among rank-and-file workers, Clayton Dubilier experiments with distributing equity to all employees. At Remington, for example, the company's 22,000 employees will receive 10% of the company's shares through a 401(k) plan, provided they meet productivity goals. At Scott, a

Dubilier \$258 million—\$58 million above its original purchase price.

Despite such accomplishments, executives at some of its former companies complain that Clayton Dubilier uses a cookie-cutter approach to management. At Scott, for example, the firm tried to push executives into expanding overseas, arguing that foreign markets could add an additional \$600 million to sales. But Scott managers resisted, arguing that the company lacked the name recognition and distribution channels to succeed in a sudden international expansion. "They all thought they were quick studies, but there were times when they just didn't understand our customers,"

CLAYTON DUBILIER'S FAMILY

Company/ Description	Operating profit* Millions	Percent change since acquisition	Company/ Description	Operating profit* Millions	Percent change since acquisition
PILLIOD CABINET Family-owned furniture maker acquired in 1985 for \$43 million	\$8.1	72%	LEXMARK INT'L. Office-equipment maker purchased from IBM in 1991 for \$1.6 billion	NA	NA
HOMELAND STORES Supermarket chain purchased from Safeway in 1987 for \$165 million	21.5	59	ALLISON GAS TURBINE Former GM jet-engine maker bought in September, 1993, for \$300 million	NA	NM
KENDALL Medical-products company purchased from Colgate-Palmolive in 1988 for \$960 million	104.9	83	VAN KAMPEN MERRITT Xerox' former investment-management unit purchased in February for \$415 million	42.7	NM
APS Auto-parts maker bought from Wickes for \$200 million in 1989	18.5	5	REMINGTON Leading gunmaker purchased from DuPont in October for \$300 million	NA	NM

DATA: COMPANY REPORTS, BUSINESS WEEK
*FOR LATEST FISCAL YEAR

NA: NOT AVAILABLE; NM: NOT MEANINGFUL SINCE INVESTMENT HAS BEEN HELD FOR LESS THAN ONE YEAR

worker on the assembly line, Emerson Hileman, says that "things just seemed to get a lot tighter" when Clayton Dubilier arrived on the scene. Still, Hileman says it was difficult to get too upset with his new bosses, who set aside 17% of the company's shares for an employee bonus program. For the past five years, the 37-year-old Hileman has received annual profit-sharing checks averaging \$2,000.

So far, Clayton Dubilier has generated impressive operating results for most of the companies it owns (table). That has helped it to ease the debt burden that fell on its stepchildren when they were acquired. Scott's long-term debt, for example, was just \$30.5 million at the end of 1992, down from the \$191 million it owed when it was purchased in 1987.

Of course, the big payoff comes when the firm cashes out. In January, 1992, it sold 89% of its shares in Scott in an initial public offering that fetched Clayton

says Tadd C. Seitz, chief executive of Scott.

And Clayton Dubilier has had its share of woes over the years. In 1988, for example, it bought Kendall Co., a medical-products maker, from Colgate Palmolive Co. for \$960 million. The firm had big plans for Kendall, including expanding production facilities and introducing new products. It built a plant in Orange County, Calif. to make a new line of antibiotics, but Kendall failed to win approvals from the Food & Drug Administration. "We had a new \$30 million plant that couldn't manufacture anything," says partner Alberto Cribiore. Worse, Kendall lost one of its major customers with the collapse of the Soviet Union, which had been buying \$40 million worth of medical adhesive tape a year. But fortunately for Clayton Dubilier and its investors, such stumbles have been fairly few.

By Ron Stodghill II in New York

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INVESTORS WANTED —FOR LAWSUITS

New firms finance patent litigation, and some even sell shares

Looking for an exotic investment? Forget about rare coins, race horses, and celebrity autographs. How about a lawsuit? You don't even have to sue anybody—you just have to put your money down on somebody who is.

That's the premise behind a handful of companies that invest in intellectual property suits brought by inventors against large corporations. Some of the investment firms engage in the practice for their own account, while others try to entice individuals through limited partnerships. The practice, confined to feuds over patents, trademarks, and copyrights, is giving companies indignation. "This is just an attempt at opportunism," says Gary A. Hecker, a lawyer for Novell Inc., which is fighting a patent-infringement suit financed with private funds. "To carve up and sell off the potential outcome of a piece of patent litigation as if it were a lottery ticket is not serving the patent system."

SLOW PROCESS. Many small inventors would beg to differ. A lot of lawyers will gladly take personal-injury suits on a contingency-fee basis, but intellectual-property litigation is too time-consuming and costly for that approach. That leaves financially strapped inventors with little recourse when they believe their inventions have been ripped off.

Take the case of Roger E. Billings. The Independence (Mo.) inventor is suing Novell and one of its customers, Bank of America, for unlawfully using technology he claims to have developed—a client-server system that allows computers to share information through a central computer. Intellectual Property Reserve Corp., a Louisville (Ky.) firm, is one of the parties funding Billings' case, which he estimates may be worth \$62.5 billion in damages. So far, the returns have been more modest, with BofA recently agreeing to pay \$125,000 for a license. Billings says even that settlement wouldn't have been possible without his backers, who have spent well in excess of \$500,000

on the case. For its part, Novell has pledged to fight on, arguing that its product has nothing to do with Billings' invention.

Like it or not, investing in litigation is catching on. Where else can you find a success rate of 75.6%? That's the percentage of cases won by patent holders, according to a data base set up by Intellectual Property to evaluate the risks and likelihood of recovery in such



BETTING ON LITIGATION

Intellectual Property Reserve Corp., one of several companies that invest in patent litigation, receives up to 40% of the recovery if a suit is successful. Some suits Intellectual Property is currently funding:

LAWRENCE B. LOCKWOOD VS. AMERICAN AIRLINES INC.: Invention used on airline's reservation system that allows travel agents to view photos of hotels, restaurant menus, and other information on their personal terminals.

INTERNATIONAL ACADEMY OF SCIENCE VS. NOVELL INC. AND BANK OF AMERICA: Client-server system enables computers to share information through a centralized computer. BofA settled case by purchasing a license for \$125,000.

DENNIS MERINO VS. MARCHON INC. AND TOYS 'R' US: Bump in a water slide sold as the Crocodile Mile with the Boomerang Bump.

ALTON WHEELER VS. POLAROID CORP.: Superimposed images on instant photos.



cases. The data base includes about 7,700 patent cases brought over the last 17 years. "In large cases, you can easily have 2, 5, or 10 times the amount invested returned within a year," says Marc E. Brown, a patent lawyer with clients funded by Intellectual Property.

That has been the experience of another litigation investment outfit, WBX Partners. WBX, in San Rafael, Calif., has

raked in more than \$9 million from suits alleging infringement of the water bed patent. To bring the cases, WBX raised more than \$1 million in a limited partnership that includes the water bed's creator. Thirty more suits are pending. Patent Protection Institute, a companion company, is trying to unearth other litigation opportunities. An unrelated firm, Patent Enforcement Fund, in Fairfield Conn., uses its capital to buy stakes in patents. Because all these firms can claim ownership in the patents, they get around laws in some states that bar sharing proceeds from suits with third parties, a practice known as champerty.

At Intellectual Property Reserve, inventors' claims must be considered not only valid, but valuable. In exchange for legal fees and court costs, patent holders give up as much as 40% of the recovery—an arrangement comparable to contingency fees used by plaintiff lawyers. The resources of target defendants must also be evaluated. "We do a very extensive investigation to be sure

the case is justified," says company President Robert W. Fletcher. "These are not frivolous suits."

GOING AWRY? All these firms contend they are helping small-time inventors by forcing corporations to pay them properly for their innovations. But companies and their lawyers say that making profits from suits perverts the judicial process, which is intended to compensate injured parties, not make investors rich. "Once you start syndicating hurts and wrongs, the whole theory behind the justice system goes awry," says Michael Epstein, who defends companies against patent infringement suits.

But what happens when inventors want protection from future infringers? Fletcher has the answer with Intellectual Property Insurance Services Corp., a firm that writes insurance policies triggered in the event of litigation. The policies work like most others, with patent holders paying premiums for a desired amount and type of coverage. A \$500,000 policy to insure one patent for instance, costs \$3,043 annually. Since 1991, the company has insured

about 1,000 patents and is collecting some \$500,000 in premiums a year.

With resources mounting for individual inventors, corporations may feel they need to brace financially for an avalanche of patent litigation. But not to worry. Another firm plans to offer corporate defendants insurance coverage for such suits by the end of the year.

By Linda Himmelstein in New York

SOMETIMES WHEN
YOU HAVE
A GREAT IDEA YOU
WANT TO TELL
THE WORLD



Okay, so you're not the kind of person shout it from the rooftops. Maybe a global is more your style. An international teleconference, even better.

At Sprint, we grasp the concept. And believe in great ideas. After all, we had enough faith in a little thing called fiber optics to launch a global network back in '86. And today we're the only communications company to offer local, global and

cellular capability. Not to mention the power to communicate with over 290 countries and locations around the world and a connection so clear you could hear a...well, you know.

But alas, man does not live by technology alone. So it's nice to know there's a communications company you can actually communicate with. At Sprint, we place more value on helping people move forward,

than getting them back. That means delivering the future, rather than just promising it.

So the next time you have a great idea, don't be shy. And don't wait for someone else to bring you the technology that lets you spread the word.

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Merrill Lynch establishes
Business Financial Services
to meet the needs of
small businesses.

1986

Six times over a
week, Merrill Lynch
broadcasts national
teleconference on
the Tax Reform
Act of 1986 to
100,000 investors.

1988

Merrill Lynch
recommends
clients consider
bonds and interest-
rate-sensitive stock
in anticipation of
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inflation.

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Trust Company.

1985

Survey of investment
officers names
Merrill Lynch as the
most helpful firm in the
aftermath of the October
market decline.

1987

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effect of spiraling
interest rates and
clients' resulting
credit needs,
Merrill Lynch begins
development of an
innovative array of
home mortgages.

1989

1990

Merrill Lynch forms its Insurance Group to provide an expanded array of retirement and estate planning opportunities.

1992

As early as election day, Merrill Lynch advises investors to consider municipal bonds in view of potential tax increases.

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1991

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1993

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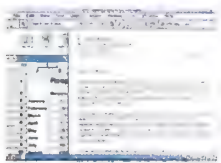


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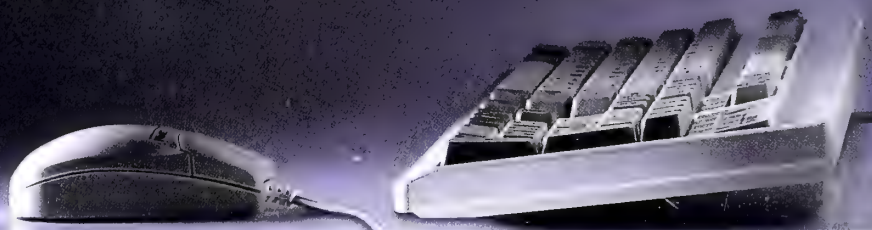
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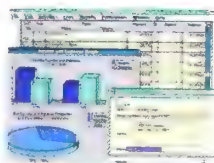


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PART ONE:
RE-ENGINEERING
SCHOOLS

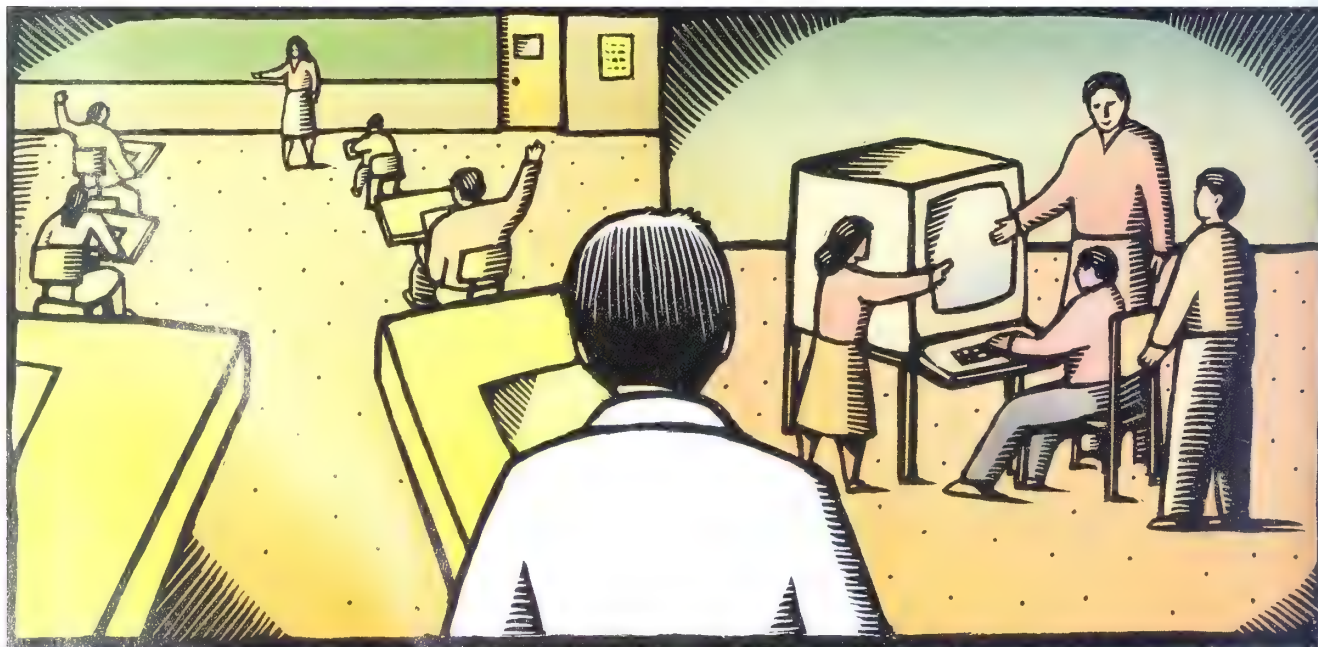
n Organizational Theory Perspective

Today, human knowledge roughly doubles each year, and the shelf life of expertise grows shorter each day. *The Economist* has estimated that an M.B.A. degree, for example, will hold you in good stead for no more than eight years. In high-tech industries, many employees have to retool – or train for completely new jobs – after two or three years. Knowing how to learn is the key qualification for the vast majority of jobs in the Knowledge Age.

We hear a great deal about the information explosion – the astonishing increase in our ability to collect and process data, and the resulting bombardment of people and institutions by massive quantities of information. The challenge is to respond with a learning explosion – an approach to acquiring, managing, and creating knowledge that bursts the normal confines of how we think about learning by freeing it from fixed places, times, subjects and sequencing.

But to ignite the learning explosion, we need to rework many of our institutions so that they promote rather than discourage continuous, collaborative learning. We have to accept the notion that organizational life as we have known it is a relic of the past.

Most of us have come to terms with this fact of life as it relates to the workplace. We're not even sure we're on firm ground when we use the term "workplace." As business professor Shoshana Zuboff has pointed out, today's workplace may no longer be a "place" at all, but rather "an arena through which information circulates, information to which intellectual effort is applied." The arena may not be – probably cannot be – the kind of self-contained enclosure that we associate with the workplace of the past. It is more likely to be defined by a question – a quest for knowledge – than by a building, an organizational chart, or even a



strategic plan. It is more likely to be defined by a problem or a process than by a production plan. Technology has so dramatically altered organizational life that its chroniclers have had to search their on-line thesauruses for language to describe the new ways that we humans have been finding to assemble and re-assemble ourselves.

Back in the eighties, before our organizations were "re-engineered," they were being "reinvented." More recently, Peter Drucker wrote about the "information-based organization," and Japanese organizational theorist Ikujiro Nonaka described the "knowledge-creating company." Other writers have envisioned the "cluster organization," which brings teams together to solve a problem and disbands them when the job is done, and the "learning organization," whose mission is the creation and transfer of knowledge.

Educators are also reaching for ways to describe their enterprise that reflect the values of the information age, stressing the sharing of knowledge rather than its acquisition. They speak of collaborative cultures and cooperative learning. As Harvard educator Howard Gardner writes, "Many educators today are adopting the metaphor of a community to distinguish schools from older organizational models – for example, those based on factories and industrial organizations – in which administrators imposed the agenda from the top down. They point out that in a community, everyone has a voice."

Whatever it is called, the organization that is now evolving moves beyond the Taylor model (the *Tinker-Taylor-Soldier-Spy.*), and is based not on hierarchies or technologies, but on people. It is a loose and flexible structure, stressing collaboration and communication rather than parallel study and solitude. It equips people with the tools they need to create and share information, so that when an individual learns, the whole enterprise profits.

Toward a New Instructional Model

These kinds of changes are affecting a vast array of organizations in the private and public sectors – manufacturers, service companies, hospitals, research institutions, community-based organizations. We can no longer assume that schools are exempt from these changes, or that they can stay the same and still produce graduates who can succeed in tomorrow's workplace.

John Clement, an educational technologist at the National Science Foundation, puts it this way: "In years to come, most of us will be involved in work that involves tapping information from far-flung locations, bringing it to a point in one's own mind, and then pouring it out into a collaboration. We'd better make schools that work that way as well. But as things stand, our schools don't look at all like the workplace of today, much less the workplace of the future. Today's schools are preparing people for the workplace of 1953."

There are, of course, differences between schools and other kinds of work settings. At least for younger students, classrooms will always be "places" in the traditional sense – preferably close to home. In fact, many more students will study without leaving home at all. Tomorrow's technologies will blur the boundaries between home and school, allowing parents to draw on electronic resources in order to assemble educational experiences at home "learning stations" that reinforce or extend the kinds of learning their children are exposed to at school. Recognizing that parents are eager to get in on the technology act, software companies are responding. Last month, Microsoft announced its national Parent Technology Night program – back-to-school nights designed to familiarize parents with new technologies that can be used at home to support their children's education.

More parents may choose to embark on the adventure of home schooling, relying on networks to access instructional courseware and give their children broad contact with other learners. Some companies, like the Learning Company, sold educational courseware to parents before approaching the school market, and continue to stress home sales.

Most students will continue to learn in classrooms. Tomorrow's schools will not be "schools without walls," but rather schools whose walls



Multimedia formats engage learners of all ages.

Tomorrow's schools will not be "schools without walls," but rather schools whose walls do not confine learning.



New technologies allow children to work toward clear goals at their own pace.

do not confine learning. In coming decades, new technologies and wider, faster networks will allow students and teachers in neighborhood schools to use the world at large as their classroom, and each other as guides. New learning systems will allow children – working alone or in groups – to define and solve problems, working toward clear goals at their own pace, in a format and sequence suited to their own learning styles.

But all of these changes mean putting aside long-established models of educational technology: IBM's chief executive Lou Gerstner puts it this way: "When you think about our basic educational technology in its broadest sense, we're still in the nineteenth century. We still have a person stand in front of 24 to 40 persons, talk to them about a textbook that's sitting in front of them, and then send them off to all do the same exercises from that book."

Says John Clement, "We take for granted a classroom model that comes from the Middle Ages. It hasn't changed discernibly since the Venetians taught fractions to groups of mercantile students in the mid-15th century. In this country, the instruction hasn't changed much since the early 1800s. We need to move away from that model, and we have two ways to go. We can sharpen our focus, individualizing education; and we can widen the focus, expanding the scope of education. By using technology, we can do both." ▲

Tinker-Taylor-Soldier-Spy

Perhaps the real power of new technologies is that they allow us – indeed, force us – to scrap outmoded assumptions about how we organize school buildings and school days, and how we structure curricula.

They are helping us to explode four pervasive myths of school reform – false assumptions that lock our thinking in obsolete models and block the impulse to imagine a better way. These assumptions are so deeply ingrained in our thinking about schools and schooling that they tend to be virtually invisible. Our shorthand for these interlinking myths is "Tinker-Taylor-Soldier-Spy." They represent the most daunting obstacles to change.

■ **The "Tinker" Myth:** That we can create schools for the twenty-first century by tinkering with the ones we've got – by devising new standards and new tests; adding enrichment programs; or bolting tomorrow's technology to today's pedagogy.

■ **The "Taylor" Myth:** That we can succeed with schools whose structure, management and routines are rooted in the organizational model developed by Frederick Winslow Taylor and popularized by Henry Ford nearly a century ago.

■ **The "Soldier" Myth:** That regulation and regimentation are essential to the success of our educational enterprise. We talk about valuing diversity, but for the most part we provide instruction that assumes that all of our students have the same needs and learn in the same way, at the same pace, in the same formats, in the same language.

■ **The "Spy" Myth:** That in education (as in espionage) ownership of knowledge is our highest value, and the transfer of information our most urgent objective. We pay lip service to developing higher-order thinking and autonomous learning skills, mindful of the fact that even entry level jobs are becoming more demanding. But we rely on instructional formats that give learners few opportunities to formulate or grapple with complex problems, working with peers or on their own, over an extended period of time.

Chrysler's Mike Duvall has a second job. And the benefits are endless.

Chrysler Corporation
National Education Programs Administrator
12000 Chrysler Drive
Highland Park, MI 48288

Attn: Valerie A. Becker

I have been involved with the "World of Work" program since May 1992. It has been a very challenging and rewarding experience for Johnny and me. I began working with him for 1 hour a week, mostly math, reading, and writing. He was doing so well that we decided to continue through the summer months. We worked at a day care facility after working hours. We continued to use the same course materials that had been provided by the teachers.

In addition to tutoring, we have developed a friendship outside the classroom. We have taken day trips to ride steam trains, visited museums, and attended a play at the Opera House. This summer Johnny, Andrew (my son), and I plan on doing some serious fishing.

Michael W. Duvall



Chrysler Corporation's "World of Work" program focuses on helping children understand how achieving a good education can lead to better jobs and more fulfilling lives. It provides a link between the world of school and the demands of the workplace. The program is in 50 sites and over 2,000 Chrysler employees participating, all helping to make a difference. A recent study revealed that participation in the program improved children's educational skills, attendance and desire to learn. "World of Work" is just one of several educational programs initiated and developed by Chrysler Corporation. If your company is interested in learning more about our programs, write to Chrysler Corporation, Education Coordinator, 12000 Chrysler Drive, Highland Park, MI 48288.

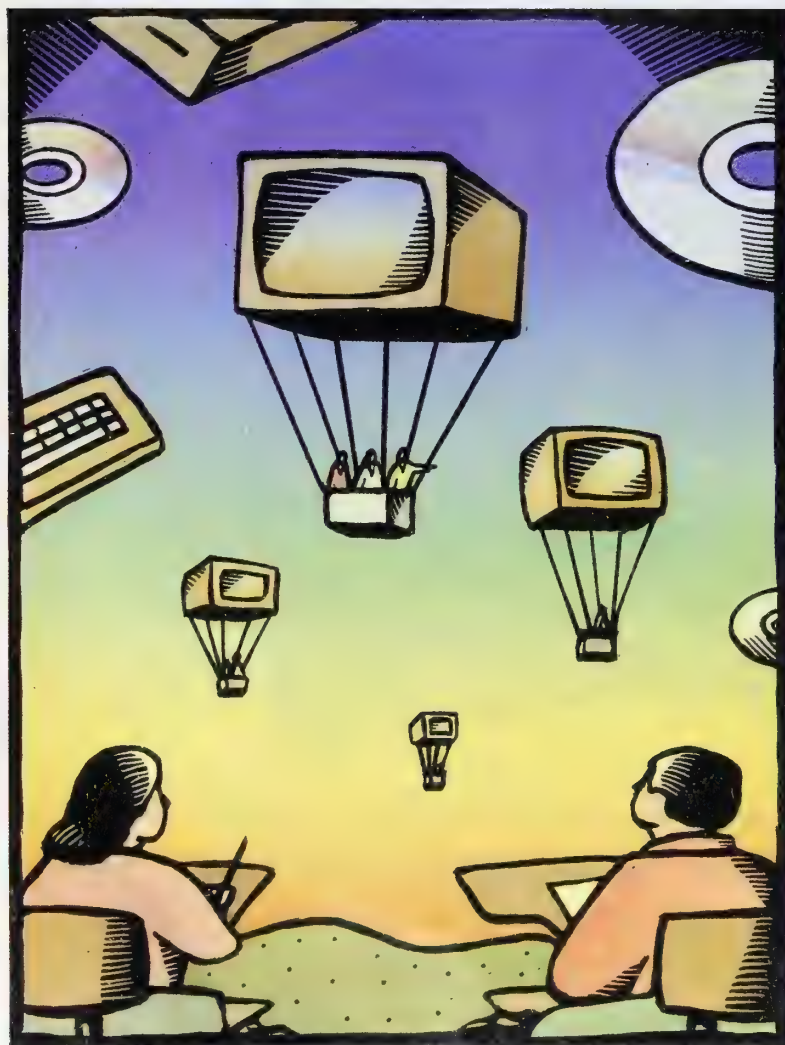


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PART TWO: EDUCATIONAL
TECHNOLOGY — THE STATE
OF THE ART

From Film Strip to Interactive Multimedia



Acknowledging the limitations of the standardized, one-size-fits-all textbook (see *Tomorrow's Textbook.*), teachers in schools across the nation are already using a wide range of other technologies, like videodiscs and CD-ROM, to meet their students' specific educational needs.

These technologies move us light years beyond the tedious drill that early educational software promoted, and allow highly engaging activities like multimedia simulation. Of course they are not in use everywhere, and assuring equity is an urgent priority. But there are islands of innovation in every state that serve as models for other schools and school districts.

Filmstrips. Remember filmstrips? We all threw spitballs while Artie or Joe — the kid from the AV committee whose shirt never stayed tucked into his pants — threaded the film through the projector. The only thing that could stop the action was a jam: the frame would break or better yet, melt — the only exciting special effect offered before the 1980s.

Videotapes. Virtually every school in America now owns a VCR — and when the teachers can program them, the first graders lend a hand. With the VCR, teachers could stop the action, pause or answer questions about the presentation, repeat a segment, or introduce supplemental material. And the range of visual material became much broader — including a wide variety of programs aired by the nation's public broadcasting companies.

"The young leaders of today — the engineers, the entrepreneurs, the doctors and teachers — all toddled on the sidewalks of *Sesame Street* and *Mr. Rogers' Neighborhood*," says Richard Carlson, President and CEO of the Corporation for Public Broadcasting. "Tomorrow's leaders will have the same opportunity. Only they'll have even more choices."

In recent years, the cable television industry has been very active in wiring schools so that teachers can tape its many educational offerings. Bobbi Kamil, Executive Director of a non-profit effort called *Cable in the Classroom*, says that more than 60 percent of schools across the nation now have at least one cable hook-up.

Videodiscs. By the late 1980s, educators discovered the videodisc player — a device that plays two-sided discs that can store a huge amount of text, graphics, sound, still images, and video. This technology was wildly

successful in the home market, but offered teachers an advantage that the VCR couldn't match: the ability to move through the presentation, in a sequence selected to meet their instructional goals and their students' needs. Videodiscs represent a pioneering effort — the first successful storage medium for multimedia instructional applications. But they may soon become collectibles, because they cannot be easily converted to a digital format, so courseware developers are moving over to CD-ROM. **CD-ROM.** By 1990, schools that owned personal computers were beginning to use them to run multimedia software on an internal or external CD-ROM drive. The acronym stands for Compact Disc Read-Only Memory, and in fact, the device allows you to "only read" — that is, access but not change or augment or otherwise manipulate its content.

CD-ROM brings together the power of computers and the impact of multimedia. Like videodiscs, CD-ROM programs present a huge amount of information in a variety of formats. Unlike videodiscs, they store information in digital format, so it can be easily integrated into standard computer applications. And they are cheaper: if a school already owns a personal computer, adding CD-ROM capability typically costs less than four hundred dollars. CD-ROM compresses vast libraries of data onto discs that can be accessed with a device smaller than a breadbox; in some cases, much smaller. Sony has introduced the Discman, a portable CD-ROM player that looks like a small CD player but has, in addition to sound, a flip-up LCD screen and a miniature, full keyboard. It combines entertainment and educational technologies, and it begins to approximate the textbook of the future. It provides a CD-ROM atlas without sacrificing the globe. It provides a multimedia lesson on Mozart without sacrificing the piano in the corner of the room.

Networking: Reach Out and Teach Someone

Linking computers near and far, networking opens up a universe of people, ideas, and information. It provides data on the real world on a real-time basis. And it opens up endless possibilities for dynamic collaboration among students and teachers.

Local Area Networks. Networks can connect computers at the same location, via copper wire. All of the computers are hooked up to this local area network — whether two PCs in a classroom or dozens in a computer center — can share software applications and data files from the same file server. Teachers and students can collaborate on joint projects. **Telecommunicating.** Add a modem, connect it to a telephone line, and you're all set to reach out and teach someone. Suddenly the Global Village is no longer the province of futurists.

The Global Schoolhouse Project, funded by the National Science Foundation, links classrooms in different

"The most exciting learning programs for young children this year..."

Warren Buckleitner, Editor
Children's Software Review



"I'm good at everything when I play with Millie and Bailey."

Katie, age 4

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It's fun to learn with software from Edmark, the company with 20 years of expertise in early childhood education. Our award-winning "kidware" blends solid computer learning with delightful computer play, for little experts ages 2 to 8.

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Most importantly, Edmark software creates a cheery, flexible, always positive environment where children can play and learn for hours, independently. You and your little expert will agree, on software from Edmark.

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countries, allowing teachers and students to work together and share data.

Al Rogers, who directs Fredmail (Free Educational Electronic Mail Foundation) runs a global grocery project: kids from different countries share information about what it costs a family of four to buy groceries for a week, what their shopping lists look like, who does the shopping, and who eats what. It's a terrific curriculum, combining social studies, economics, and math. And it's a great ice breaker for kids who may be shy about sharing: "You mean you actually eat that stuff?"

Through a program sponsored by BellSouth, students in rural Tennessee have been exchanging messages with a student in Bosnia, who reports first-hand on his experience of war. Today, modems connect thousands of teachers and students in far-flung areas of the globe. But perhaps the most important hookups are those that link kids who live in nearby neighborhoods of the same city – communities that are so different that they might as well be thousands of miles apart. For these kids and teachers, multicultural education is no abstraction. Networking allows ongoing collaboration among children whose paths might never have crossed.

Getting Wired. About 60 percent of the nation's colleges and universities have some kind of campus-wide information system or are in the process of installing one, according to survey by CAUSE, an association for the management of information technology in higher education.

Some institutions are investing in optical fiber cable – the fastest communications medium now available. Optical fiber cables carry data in the form of digitized light, along glass strands about the size of a human hair.

In time, optical fiber cable will come to pre-collegiate institutions as well. In isolated cases, it is already happening. A public high school in Illinois is among those leading the way. "We are now almost totally wired with fiber optic cable," says Stephanie Pace Marshall, principal of Illinois Math and Science Academy, a public, three-year residential high

school for students talented in math, science, and technology. She characterizes the school as an electronic learning community, and says that much of the curriculum is grounded in the data that teachers and students retrieve from Internet – a global computer network that links scholars around the world.

Getting on the Information Highway.

Over the next decade, these networks will link students and teachers with the National Research and Education Network (NREN), an ultra-fast super-network of computers designed to mesh all of our nation's major intellectual resources. Legislation creating the NREN became law late last year. Originally, this "electronic highway" was supposed to connect only the nation's federally funded research facilities and supercomputer centers, but vigorous lobbying by educators and librarians persuaded lawmakers to include their facilities. As a result, NREN may give the nation's 16,000 school districts unprecedented access to state-of-the-art research and new curriculum possibilities.

The plan has sparked some controversy among educators. Some want to see mechanisms built into NREN to ensure fair access for all users. And many school administrators say that their students won't benefit from an information highway until they have an on-ramp – in the form of a telecommunications infrastructure that includes not only desktop computers, telephones, and modems, but also teachers trained to use them. No matter what technology you introduce, they say, timely and effective professional development is the key. ▲

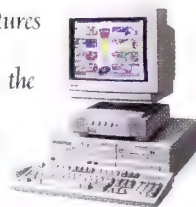


Tomorrow's schools will be electronic learning communities. In some places, it's already happening.

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It shouldn't surprise you, either, to find CD-ROM multimedia computing at Radio Shack. Because we've always brought technology down to earth for your family. This time, with the Tandy Sensation. This IBM® PC compatible does things you've never seen a personal computer do. Like teach your kids in stereo sound, with pictures that move. Provide voice mail for the whole family. Even send and receive faxes. So it's no surprise that the Sensation received BYTE Magazine's User's Choice Award. But then, taking the mystery and confusion out of consumer electronics is what Radio Shack is all about. Bring your family to see the Sensation today.



At a place where the latest technology might tremble and roar, but it certainly won't bite. **Radio Shack**



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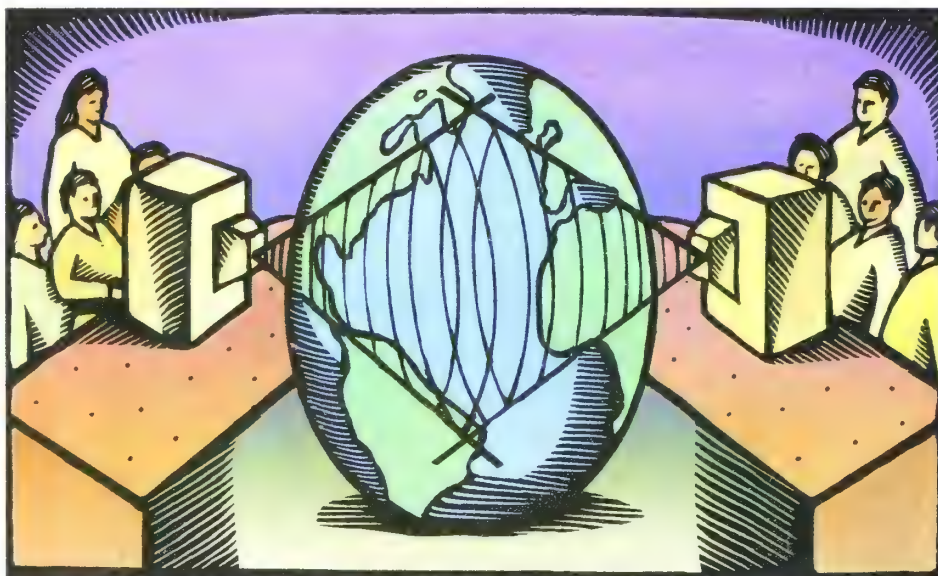


PC2
multimedia PC



PART THREE:
TOMORROW'S LEARNING
SYSTEMS

he Next Generation



No doubt about it, there are marvelous multimedia technologies already in use in many classrooms across the nation. But they have critical limitations.

Videodiscs store audio and video in a data format known as analog, which is difficult and expensive to distribute over a network. Using a videodisc, you can select and display sequences in any order that you choose; but you can't edit or update content, and you can't deliver programs on file servers to individual students.

Data stored in a digital format on CD-ROM can be distributed over a local area network, provided you have the required networking and communications technologies. But a CD-ROM disc may not have sufficient storage capacity for comprehensive, interactive, multimedia courseware; and once the disc is pressed, its contents cannot be augmented or updated.

Bill Abrams of ABC InterActive says that as more flexible media begin to mature, companies like his – which now rely heavily on videodiscs and CD-ROM – will shift to other platforms. "We're in the business of making programs and communicating," he says. "We can do it on pizza boxes if that's the medium that people want."

Pizza boxes? Who knows.... But this much is clear: the next generation of educational technology will leapfrog over current devices, combining the best features of today's multimedia technologies and networking to create powerful computer-mediated learning systems.

By 1995, the ability to access high quality multimedia instruction over standard local area networks will be generally available.

Mediated Learning Systems

The era of the stand-alone computer sitting on the teacher's desk is fast drawing to a close. Recent breakthroughs in hardware and software, as well as networking, make possible learning systems that were the stuff of science fiction only five years ago. (See *Tomorrow's Classroom*.) It's a matter of refining and combining capabilities that already exist:

Key Breakthroughs. We now have at our disposal practical, cost-effective means for encoding sounds and moving images into

information bits so that they can be compressed and stored efficiently in computer files. But digitizing multimedia is not enough. To make it practical for instructional purposes, we needed an efficient way to deliver it to many students at the same time. We now have that capability as well. We can store large, interactive multimedia courseware on a multimedia file server.

The advantages of electronic storage and access are tremendous. Hardware costs shrink significantly. It doesn't take a supercomputer to operate a learning system that feeds multimedia courseware to dozens of learning stations. It can be configured with personal computers running either of the two most common operating systems – Windows or Macintosh. But most importantly, digital multimedia makes it possible to individualize curriculum as never before.

Working on their own at individual learning stations, students can download and decompress

continue

Tomorrow's Classroom

Meet Jackie and José – students enrolled in intermediate algebra at Middletown High in 1997. On Mondays, the whole class meets with their teacher to ask questions, get a sense of where they're heading, and find out how the problems they've been solving fit into the overall curriculum.

But this is Tuesday. Jackie and José report to the "Mediated Learning Center," where students work at networked learning stations. Each one can access instruction in a variety of formats – text, hypertext, graphics, animation, simulation, visualization, and full-motion audio and video.

José begins at lesson six of the intermediate algebra curriculum, and Jackie at lesson seven. The instructional program contains a pre-test that pinpoints the best starting place for each. But they don't have to proceed in any particular order. Each student can navigate through a topic or lesson over a number of distinct pathways, at his or her own pace.

That doesn't mean it's a free-for-all. Not by a long shot. The students are working toward specific performance goals, and they can spend as much time as they need to achieve them – working on a given topic, exercise, problem, or skill-building activity. The students get feedback as they work, when it is most useful, as well as more thorough individual progress reports at regular intervals, so that they can monitor and regulate their own progress. When they need more help, they can access video clips of top-notch teachers explaining particular concepts or clearing up common misconceptions.

Jackie stays for two hours. She's always been frustrated that the standard 40-minute class ends just as she's hitting her stride. And she enjoys spending some time with the tutor who is always on-site and available for individual and small group help.

José absorbs the material better in shorter spurts, so he leaves after half an hour, with plans to return later. As he leaves the learning station, he takes along a personal academic notebook – a set of printed materials and exercises in two languages that are geared specifically to his strengths and weaknesses. It may be supplemented by videotapes or exercises on floppy disks.

Where are the teachers? They are in school, working with small groups and meeting with individual students. They are teaching courses that do not lend themselves to technology-mediated instruction. They are supervising mentors. And they are developing new curricula. Teachers remain the heart and soul of the institution, but they are freed up from many of the more mundane, repetitive instructional tasks, such as scoring tests and keeping records.

Mediated learning meets the needs of a broad spectrum of students – those who can move quickly through the material, those who benefit from a slower pace, those for whom English is a second language, and those who have disabilities. And perhaps most importantly, it gives students more control over their own learning, so that they can master the autonomous learning skills that are so essential in the Knowledge Age. ▲



Mediated learning systems give students more control over their own learning.



*"I didn't like school
before but now it's okay.
We got computers and it's
better because if you mess
up you don't get laughed at
and it helps you find the
right answer. I have ideas
and I put them in there.
That's good. I remember
more now because it's fun."*

Richard Amadeo, 4th Grader, CES 35

School District 9 in the South Bronx. A story with two sides, both good

What's happening in the South Bronx is a lesson in what can be done (and how quickly) when a resourceful superintendent, dedicated teachers and school boards join forces with community groups, corporate sponsors and the right technology. After years of downward spiral, District 9 is improving beyond expectations, with students not just doing better, but doing well.

IBM systems and courseware were instrumental, but the voluntary efforts of individual IBMers are a source of special pride. Mostly, though, we salute the teachers, parents and students. The real story is theirs.



*"This was a school district
in constant decline. Now
attendance, test scores, spirits,
everything is up. In one
school, reading skills increased
29.6%. In another, math
improved 19.8%. Now mothers
know where their kids are
all day. They're in school.
This is a miracle. Nothing less."*

Kathy Nixon, 3rd Grade Teacher, CES/35

IBM Corp.



Tomorrow's Textbook

Most students now spend at least some time each month working in small groups or exploring topics on their own. But by and large, the stand-and-deliver model dominates today's classrooms – especially from junior high on: a teacher stands in front of a group of 30 to 40 students in most schools, and up to 200 students

in some colleges, and presents lessons tied to the structure of a textbook.

In fact, once a textbook is adopted for use in a particular class or course, its influence over the educational agenda and learning activities may be greater than that of the instructor. And the better the textbook – the more comprehensive it is, the more attentive to sequence and pacing – the greater the burden it may place on teachers.

Talk to people in publishing and in academia, and you'll hear a variety of opinions about the future of the textbook. Some will say that it will soon be extinct. "It's a question of when, not whether," says educational consultant John Noon, "because dynamic concepts cannot be effectively expressed in print."

Others argue that the textbook is eternal. Doug Chute of Drexel University argues that "It's got an unbeatable interface... You can put it in your pocket, take it out on the bus, and flip through it very easily."

In fact, the textbook's future is not an either/or proposition. Different kinds of technology don't always replace one another; they often co-exist. After all, even in the age of RAM and ROM, we continue to rely on the oldest memory devices -- meter and rhyme. Even in the 21st century, we won't use multimedia programs to teach children the number of days in a month. We will teach them: "Thirty days hath September..."

So the question is not whether the textbook will endure. It will. Rather, we should ask whether it should continue to be the organizing force that determines much of what goes on in our classrooms.

Textbook-centered instruction offers some advantages over computer-mediated learning – including more "contact hours" between teachers and students. But when you take a close look, this benefit may not be as significant as it sounds – especially as enrollments climb. Consider a ninth-grade geometry class with 30 students. If a teacher spends 25 minutes of a 40-minute period reviewing yesterday's lesson and presenting new material, the amount of time available to each student for student-teacher exchange is 30 seconds.

Student diversity is another key consideration – as it must be for anyone involved in instructional design. The well-designed textbook supports those students who match the profile the authors and publishers had in mind when they developed it. But for the student who does not fit this profile, even a textbook that wins good reviews from

teachers may produce an inadequate, and potentially discouraging, learning experience.

For all of these reasons, tomorrow's textbooks will be more like study guides – personal academic notebooks that accompany computer-mediated learning systems. They will provide an organizational guide, mapping out possible routes through the courseware, as well as guidelines for evaluating progress. They may provide homework problems and collaborative exercises for small groups to follow.

For publishers, this represents a real turnabout. Instead of producing elaborate four-color textbooks with relatively primitive electronic ancillaries, they are likely to produce mediated learning systems accompanied by guides that are flexible, easy-to-use, and less expensive to produce. ▲



file that contains the lesson assigned to them that day, based on their own progress. They can control the pace, sequence, level of difficulty, and the amount of practice that they want or need in a given area.

As high-speed networks are installed in schools and on campuses throughout the country, these learning stations will be located not only in classrooms, but also in study halls, libraries, computer centers. Colleges or universities may locate them as well in student centers and dorm rooms.

Linking Assessment and Instruction.

Today's interactive courseware give learners a new degree of control over the learning process, letting them navigate through a particular subject, choosing the pathways that best fit their own interests and abilities. The computer is interactive, responding to the learner's expressed preferences.

The next generation of learning systems will take the initiative as well, behaving more nearly like a tutor. Tomorrow's courseware will allow



the computer not only to detect recurrent patterns in an individual's work — evaluating strengths and weaknesses on an ongoing basis — but also to respond to those patterns. It will be able to anticipate the learner's

needs before the learner has expressed them or even become aware of them. In this way, mediated learning systems move us toward the ideal of linking assessment with instruction on an hour-by-hour, or even a minute-by-minute basis.

A Glimpse of the Future. It's already happening. Today, some pioneers, such as Jostens Learning, are offering the first generation of tomorrow's learning systems — networked, full-motion, full-screen video courseware.

Last June, Jostens Learning made available InterActiveMedia, a learning system that delivers interactive, multimedia instruction over a network, using the kinds of microcomputers that many schools already own. InterActiveMedia is now being tested in schools throughout the country, and offers a glimpse of the kinds of activities that will dominate tomorrow's classroom. ▲

JOHN CLENDENIN

Chief Executive Officer, BellSouth Corporation

ON BUILDING A SENSE OF COMMUNITY:

"The merger of technologies can indeed help to improve teaching and learning and to overcome inequities and isolation. For example, teachers can use electronic networking to exchange information, develop lessons, and ask for help from colleagues. Students can employ information technology to gain greater autonomy in their studies and to access scarce resources through distance learning programs. School administrators can manage their duties more quickly, productively, and efficiently.

"Beyond that, today's information technologies can be a catalyst to bring about a sense of community that encompasses not just schools, but a variety of information sources and institutions."

ON KEEPING PARENTS IN TOUCH WITH SCHOOLS:

"BellSouth has pioneered a number of initiatives incorporating technology for educational enhancement. We've introduced a variety of distance learning programs that connect high schools and colleges, rural areas and inner cities, for mutually beneficial synergies. Also, in several southeastern states, we are offering a voice-messaging service that helps parents stay in close contact with their children's schools."

ON PREPARING STUDENTS FOR THE INFORMATION AGE:

"But even if BellSouth had no obvious interest in the increased application of telecommunications technology, we would still have to proclaim the need for our nation's students and teachers to become technologically adept. For if they are to participate usefully in the emerging global Information Age, they must be comfortable with technology as they are today with pencils and note pads.

"However, we must not lose sight of the fact that as powerful as computers and interactive video and other distance learning technologies are, we're only going to improve education generally if we're doing the right things in the classroom. That means challenging each child's intellect, helping that child develop her or his potential into real and useful powers.

"If we do no more than use technology to put students in touch with the high-tech equivalent of today's textbooks and prevailing approaches to learning, then all we've done is dress up mediocrity with the bells and whistles of the Information Age."

Terri Guthrie may
never win a Nobel Prize,
but maybe one of
her students will.

There's not a Nobel Prize for teachers, but Terri Guthrie of Jackson Middle School in Titusville, Florida, is good reason for creating one.

In just her second year of teaching, Ms. Guthrie has mastered a rare skill—the ability to make a seemingly dry subject (in her case, Earth Science) exhilarating.

She attributes much of her ability to the four weeks she spent at the Academy for Teachers of Science and Math at the University of Tennessee. It's an intensive, hands-on program that teaches how to motivate students in personal and imaginative ways.

As a major Academy underwriter, Martin Marietta is proud to join government and academia in supporting excellence in education.

And we're even prouder to know that thanks to Martin Marietta Fellows like Terri Guthrie, more students are getting turned on to math, science and the environment.

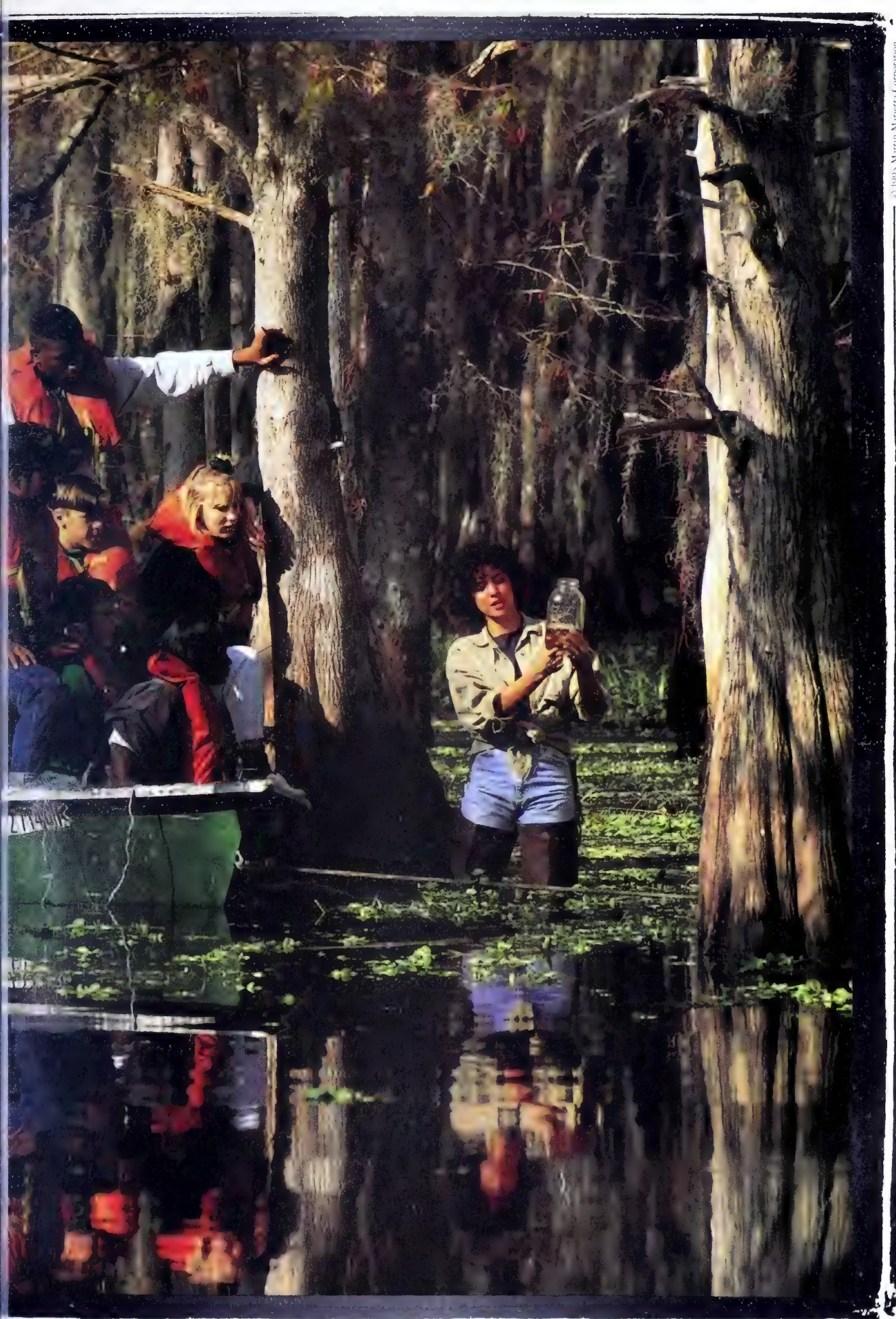
Who knows, one may even some day win the first Nobel Prize. For teaching.

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PART FOUR:
GETTING FROM HERE
TO THERE

rom Bowlerama to the Classroom

Information technologies are always many steps ahead of the ability of schools and colleges to absorb them. It took ten years to get the overhead projector from the bowling alley to the classroom! Chances are, the Bowlerama where your kids spend their Saturdays is still more sophisticated technologically than the classroom where they spend their Mondays.

In the past, industry people tended to blame the users. "Schoolteachers (read: women) aren't

computer literate," they said. Or: "Our kids aren't smart enough to make good use of computers."

But today, it is clear that we humans are designed very well. We work effortlessly with computers all day long – automatic teller machines, entertainment systems, toasters, microwaves – as long as its interface is efficient enough to become virtually transparent.

It's the machines that have to get smarter, that is, more capable of interacting in ways that make sense to people, and more capable of manipulating knowledge – marking it, analyzing it, recombining it, updating it – without lots of arcane instructions.

In the old days – three or four years ago – the biggest impediment to the effective use of computers in the classroom was getting the teacher to turn them on. The machines were too intimidating, and the documentation that accompanied them were needlessly technical.

The Apple Macintosh has done very well in the educational marketplace – both K-12 and higher education – because it was the friendliest box on the block. Today, Apple's competitors are designing new models designed for easy use. The COMPAQ Presario, for example, can be up and running within minutes of opening the box, and provides on-screen help that is truly helpful.

Compatibility problems are easing up as well. In the 1980s, deciding which hardware to buy was a nightmare. Software problems were equally troublesome. Converting files from one word processor to another was at best a major irritation, and at worst a trauma.

"We shouldn't be arguing about brands or platforms, but about substance," says Gary Cosimini, Business Development Manager for ADOBE Systems. His company has produced a software application called Acrobat, which shrinks compatibility problems almost to the vanishing point. With a tool like Acrobat, you can use your own computer system to display and print documents created by people who use different hardware and software.

So far so good: we have the capability to produce powerful multimedia courseware that customize our curricula. We have machines that are smarter and we have fewer compatibility headaches. But most of our schools are not yet prepared to take advantage of these technological breakthroughs.





Public broadcasting has been helping preschoolers learn for 25 years. Now it's time to bring business into the picture.

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Less visible — yet no less important — is public broadcasting's other school readiness resources.

Ranging from teacher materials to instructional videos to computer programs, these resources strengthen the educational value of our television programming. Projects

such as "Mister Rogers' Neighborhood Child Care Partnership" and "Sesame Street Preschool Educational Project" have been developed in consultation with educators, parents, and child care providers. Each has been carefully tested and refined to help adults make the best use of television to teach children basic learning and social skills.

Most important, each shares a common goal: to help children enter school ready to learn.

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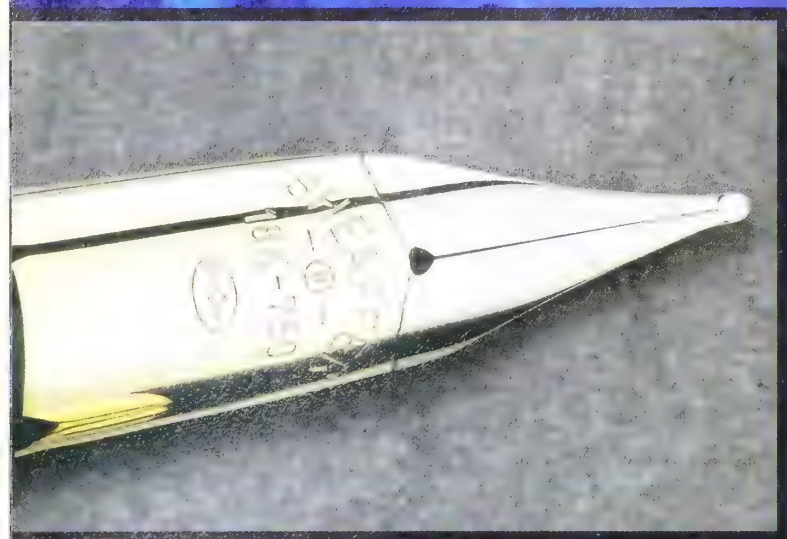
For two decades, Iowa students have led the nation in ACT and SAT college entrance exam scores. And the scores high with business in better job performance and lower training costs.

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"Creativity, Control, and Community"

Surprisingly, most technologists do not believe the major impediment is financial. Many feel that our schools' investment in technology is appallingly low. Next year, our public schools (2) will spend close to \$300 billion. Of this, less than \$2 billion will go to instructional technologies and applications – about two-thirds, one percent. In contrast, most knowledge-based organizations devote anywhere from five to eight percent of their expenditures to cutting-edge technologies.

The steepest impediment to effective use of technology, many believe, is a school culture that does not sufficiently value collaboration among teachers, or between teachers and parents. In 1988, at a conference on Education Partnerships on Work in the 21st Century, Helaine R. Grumet, Dean of the Brooklyn College School of Education and author of *For Milk: Women and Teaching*, envisioned a new world of schooling in which every classroom would be equipped with a device that has the potential to transform the professional lives of teachers across America – the telephone. Addressing educational technology as "a combination of creativity, control, and community," Grumet pointed out that in most schools across the country, you cannot phone a teacher to ask a question, offer information, share an idea – or simply to say hello. "Teachers are the most over-controlled workforce, being asked to do the most creative work that we have," she says. "The issue of changing the school site is a fundamental issue of human creativity."

Five years later, taxpayers have installed hundreds of thousands more computers in American classrooms, but you still can't phone teachers. "Nationally, 99 percent of homes have telephones, but only two percent of classrooms do," says Connie Stout, Director of the National Education Network.



Teachers do the most creative work that we have.

LOU GERSTNER

Chief Executive Officer, IBM

ON RETHINKING EDUCATION:

"The most important thing we have to recognize is that information technology will not solve the problems of our public schools unless the public schools fundamentally restructure the way they think about education. And if you think about the most important examples of information technology transforming private enterprise, it is in circumstances where companies have redefined their business and use information technology to carry out that restructuring and redefinition."

ON BOOSTING PRODUCTIVITY:

"The real problem in public education today is that there is no measurement of its productivity. What technology fundamentally does – no matter what kind of technology you're talking about – is to drive productivity. In order to have productivity, you must be able to manage inputs and measure outputs and determine how the change in inputs produces a change in outputs. More output for less input is the definition of productivity.

"We are the only nation that does not measure the output of our public schools. There is a constant call for increasing the inputs – mainly how much we spend on education – without a clear indication of what new levels of performance or output will be achieved with that funding. If we are willing to set such standards and willing to measure results, then technology will become an unbelievably powerful tool in the schools."

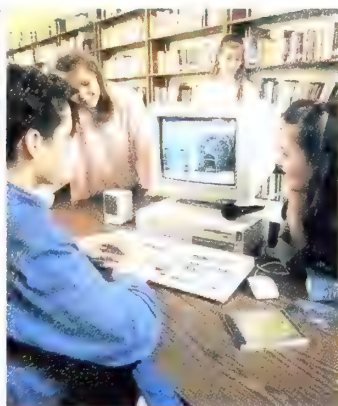
ON THE BENEFITS OF EDUCATIONAL TECHNOLOGY:

"Information technology can turn the student into the worker. The teacher becomes the manager of a learning process driven toward concepts of mastery learning. The child can work at his or her own pace and test himself or herself until a subject is mastered. There is no passing and failing. Information technology will allow that technology to enter the learning experience in a way that's consistent with the individual's level – not the level that's been prescribed for all fourth graders because that's where the fourth-grade textbook starts."

ON TRANSFORMING THE ROLE OF THE STUDENT:

"There has been a tendency in schools to look at technology for technology's sake: let's buy some computers and teach children how to use them. Technology is a tool, not an end objective. It lets you do something – once you've set out what you want to accomplish. Information technology makes it possible for people to become true knowledge workers, to increase their output and change the nature of their job, and that's exactly what we want to do with students. We want to increase outputs and change nature of their job. Their job is not to be worked on, but to be the worker."

THE FUTURE OF TECHNOLOGY IN EDUCATION



Learning is best when it's active.

Telecommunication companies are working with public service commissions to make it possible for schools to install telephone lines at discount rates. Most of these lines are connected to modems, but teachers have figured out that they can also be used to make voice contact. And so the telephone is following the modem into the classroom. And networks designed to link teachers, like the Texas Education Network, are really taking off. But the basic issue – creation of a more collaborative culture – will not be solved by wires or modems.

Transforming Teachers' Roles

Even those at the forefront of the technological revolution reject "Robo-Teach" as a goal, even for the distant future. "Real-life problems come down to people-to-people interaction – collaborative problem-solving," says Craig Barrett, Intel Corporation's Chief Operating Officer, "and that doesn't happen with a computer alone."

Bill Graves, Director of the Institute for Academic Technology at the University of North Carolina at Chapel Hill, compares the teacher's new role to that of a guide: "Learning becomes an exploration – like a rafting trip. You're the explorer, and you have along a guide who has organized the event, and lines up the resources – the equipment and the maps."

Educational technologists are unanimous on one point: over time, teacher education will have to change. As things stand, most graduates of schools of education feel unprepared to use new technologies. When the American Association of Colleges for Teacher Education surveyed students in 90 member institutions, they found that only 29 percent felt ready to teach with computers.

Controlled Impatience

Too many of the nearly 73,000 school-business partnerships that have been formed across America over the last decade stem from opportunism and result in little more than a flurry of PR. That's the bad news. The good news is that a core of business executives committed to strengthening education has emerged – and they appear to have signed on for the long haul. Many of them have joined forces. More than two dozen chief executives form the Business Roundtable Education Task Force.

Others are determined to move beyond school reform efforts that tinker around the edges.

"We're convinced that we need a new system of education," says Frank Shrontz, CEO of Boeing and Vice Chairman of the New American Schools Development Corporation, an organization formed by business leaders to raise money to fund the work of 'design teams' who will rethink the ways our schools can best deliver a world-class education.

The most successful partnerships appear to be those that link a business coalition with a school district to assess achievement, develop a strategic plan for attaining better outcomes, and drum up enthusiasm for that plan within the district administration and the community at large.

Educational technology has been an area of successful collaboration. "What I've found most exciting about educational technology over the last ten years," says Linda Roberts, the Clinton Administration's chief educational technologist, "is the partnerships between schools and industry. The key is to create a win/win situation where schools get what they need, and businesses also have an opportunity to find out about the needs of the marketplace and the kind of services that the community needs."

Timpane and McNeill conclude that business leaders must remain in the midst of the enterprise – with "controlled impatience."

Over the next decade, entrepreneurs and educators, working together, must build organizations that bring together the resources and expertise needed to develop tomorrow's learning systems, organizations that can play the kind of catalytic role in interactive multimedia instruction that the Children's Television Workshop played in educational broadcasting.

Collaborating with parents, policy-makers, and pedagogues, they must clear some very steep hurdles: setting standards and designing learning systems that can help students meet those standards; assuring equity; revamping professional development; reallocating education funds; rethinking assessment; and creating a school culture that values collaboration. It is controlled impatience that will lift us – in systematic leaps and modulated balance – over those hurdles, propelling us from today's technologies to tomorrow's learning systems.▲

This special section was prepared by Bernard R. Gifford, professor in the Division of Education in Mathematics, Science, and Technology, University of California at Berkeley. Gifford is also founder and Chief Instructional Officer of the Academic Systems Corporation.

THE FUELS THAT HELPED CALIFORNIA BECOME THE WORLD LEADER AGAINST POLLUTION.



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Then two years ago, in partnership with California's Air Resources Board, ARCO developed EC-X. As the latest advance in emission control formulas, EC-X gave the Board an example for its strict, reformulated gasoline standards.

When the standards take effect in 1996, all Californians can use clean burning, reformulated gasolines that will reduce automotive pollution by 3.8 million pounds a day, compared to current emissions. Those new gasolines —

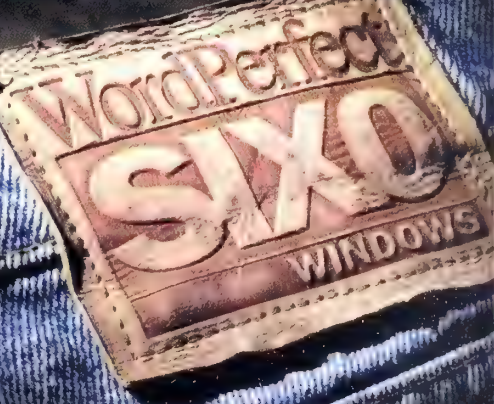
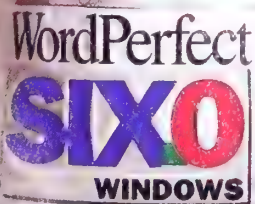
California's fuels of the future — will help achieve clean air more quickly, more practically, at less cost than methanol or other alternative fuels yet considered. Strong reasons why the Board's standards have the support of environmental groups and air quality management agencies.

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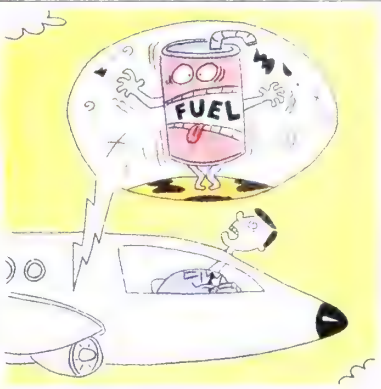
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EDITED BY RUTH COXETER

THIS SENSOR KNOWS WHEN JET FUEL IS LOSING ITS COOL



High-performance aircraft keep their electronic systems and engines cool by circulating fuel to absorb heat. Trouble is, most jet fuels can't take the heat: They form sticky deposits that eventually clog fuel lines, valves, and filters. The U.S. Air Force is testing fuels and additives for heat resistance using a sensor, developed for it by Sandia National La-

boratories, that accurately detects fuel degradation.

Sandia puts a dime-size crystal wafer into heated jet fuel and watches how it vibrates when voltage is applied. As fuel degrades, deposits weigh down the crystal, lowering the frequency of its vibrations. Based on this work, Sandia says it and General Motors Corp. are designing a sensor to monitor engine oil in cars—so that a dash light comes on when oil loses viscosity. Sandia is also working with Dickey-john Corp. of Auburn, Ill., on an engine-oil sensor for tractors, trucks, and earth-moving equipment that may be available by 1995.

IODINE-RICH SOIL COULD BE PAYDIRT

A gusher it isn't. But using a Russian exploration technique based on petroleum's attraction for iodine, Atoka Exploration Corp. has sunk a tiny oil well in Iowa with a total output of 70 barrels. Now, Denver-based Atoka is testing soil around the country for 40 other exploration companies.

Atoka looks for a concentration of iodine in surface soil, which indicates that oil may lurk below. Atoka takes a dry soil sample, adds its own secret chemical compound, heats the mixture, then adds a final unnamed chemical that turns the sample bright red. The quicker the color changes, the more iodine there is. The technique has been used by Russian as well as Chinese geologists who couldn't afford seismic tests. The cost is about \$10 per sample, or \$2,000 to test a 3-square-mile area, vs. up to \$100,000 for seismic tests. Atoka President Steven A. Tedesco says iodine testing won't eliminate the need for seismic tests but will help screen out areas where seismic testing is likely to prove fruitless.

WILL CYBER FINGER POINT THE WAY TO VIRTUAL REALITY?

It's hard to think of virtual reality without conjuring up the bulky, sensor-laden Data Glove developed by Silicon Valley pioneer VPL Research Inc. But for a vision of where artificial reality is heading, look to Nippon Telegraph & Telephone Corp.'s Cyber Finger. This new system was unveiled late last month by researchers at the Tokyo company's Human Interface Laboratory.

Instead of donning a cumbersome glove, a person simply straps on a wristwatch-size device. It's actually a grid of sensors that pick up the faint electrical signals produced by

muscle activity in the wearer's hand and fingers. These biosignals are fed to a neural-network chip that has been "trained" to recognize which signals come from what muscles. The neurochip then translates the biosignals into electronic signals that can manipulate virtual objects in some computer-simulated realm. When it's linked via radio to a mobile robot with a humanoid hand, the wristband device could also be used for so-called telecontrol applications, including defusing bombs from a safe distance or cleaning up toxic spills. NTT declines to speculate how long it will take to develop a commercial version of Cyber Finger.

DENTISTS MAY SING: 'OH, WHAT A FILLING'

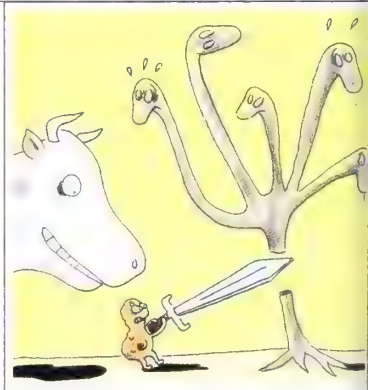
Most people have a flash of quicksilver in their smiles—amalgam fillings, which contain mercury. Amalgam has a century of use under its belt, but it has shortcomings. Since it's brittle, dentists often put in larger fillings than they'd like. And concerns linger about the safety of using mercury, a poison, says dentist Fred C. Eichmiller, a guest scientist at the National Institute of Standards & Technology.

Now, Eichmiller and NIST metallurgist David S. Lashmore have an alternative to standard amalgam, which consists of powders of metals such as silver and tin bound together by mercury. The NIST researchers coat particles of tin and other metals with silver, then fuse the particles with pressure. It takes no more pressure than most dentists use in packing a filling. Not only does the new silver-tin material avoid using mercury, but it is less brittle and resists corrosion better than amalgam, Lashmore says. The composition could be modified for different types of fillings. Real teeth haven't been filled yet, but NIST has hooked up with Dentsply International, a major amalgam maker in York, Pa., and hopes to see the new material in dental offices within three years.

GETTING TO THE ROOT OF THE MEDUSAWEED PROBLEM

Medusa's back. Not as the snake-haired monster but as a weed called medusahead that is devouring rangeland in 11 Western states. The spiky plant is slow to decay, so plant litter accumulates and fuels wildfires. Worse, medusahead's seeds resist heat, so after a fire the weed takes over from the native plants that wildlife needs. And its barbs lacerate the mouths of cattle and sheep.

Herbicides can't be applied because they're restricted on public lands. But Paul Quimby Jr. of the Agriculture Dept. Agricultural Research Service and William Grey of Montana State University may have a champion: fungi from the soil of medusahead's haunt—the area between the Cascade, Sierra, and Rocky Mountains. Greenhouse studies show that *Fusarium culmorum* keeps the weed in check by eating away the top of its roots. Fungal enzymes destroy the weed's internal plumbing—water can't travel up from the roots, and food can't travel down to be stored. Next, field trials will show how well different fungal species control medusahead.





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 UNITED AIRLINES

SWEET MUSIC WITH OMINOUS UNDERTONES FOR YAMAHA

"Virtual acoustics" may threaten its dominance in synthetic sound

For nearly as long as there have been computers, people have used them to make music. The pioneering Moog synthesizer, invented in 1964, shaped sound waves into forms that mimicked acoustic instruments. Some decades later, computerized sound went digital and attracted a mass market with Yamaha Corp.'s DX-7, the best-selling synthesizer ever.

But, despite decades of engineering, even the best synthesized music sounds a little, well, synthetic.

Maybe not for much longer. Stanford University research professor Julius Smith has invented an approach to sound generation that brings new realism to synthesized music. Stanford is licensing the technology to newcomers in the U.S., and that's set

a scramble among companies that hope to lead it—not only in keyboards but also in the fast-growing market for multimedia personal computers. "Virtual acoustics," as it's called, is a software marvel. Instead of storing a library of canned sounds, as current synthesizers do, one with the new technology creates a software model of an actual instrument (clarinet). "Blowing" on a wind instrument—which on a synthesizer may mean pushing a pedal or breathing into a sensor—triggers a special microprocessor that simulates resonances and airflow inside a real instrument.

The result: The synthesizer's clarinet squeaks. Its saxophone can growl. Its flute can vault unexpectedly up an octave. The synthesizer is even hard to play to its full potential—just like a real instrument. That's the way the pros want it. "It makes all the synthesizers of

the past sound cartoonish, because you can't make them expressive," says Scott Plunkett, keyboardist for such singers as Don Henley and Boyz n the Scaggs. As a Yamaha consultant, Plunkett has tested a virtual acoustics synthesizer, announced on Nov. 3, that the company will start selling in the U.S. early next year for about \$6,000.

HOW TO PLAY A VIRTUAL CLARINET

Today's keyboard synthesizers mimic different instruments by drawing on a library of stored sounds. But the electronic instruments can't capture all the nuances of real ones. Yamaha Corp.'s new approach is to store computer models of dozens of instruments in the keyboard's software. A model's variables can be manipulated by the musician.

In a virtual clarinet, a set of formulas represents embouchure, or how tightly the lips press against the mouthpiece reed. On the electronic instrument, a musician can simulate changes in embouchure using controls on the keyboard.

Other variables control features such as breath pressure, growl, pitch, and damping. The musician could control breath pressure, for example, by blowing into an electronic sensor or pressing a foot pedal.

The digital sound outputs go to a mixer and can then be fed to speakers or recorded.



The real money won't be in synthesizers, however, but in sound cards for personal computers. Today, the two markets are about \$400 million a year apiece. But demand for synthesizers is growing slowly, while industry experts predict that the number of PCs equipped for sound will more than triple next year as more are fitted with CD-ROM drives for multimedia. Says Satish Gup-

ta, vice-president for strategic product development at Media Vision Inc., a Fremont (Calif.) maker of add-in sound boards for PCs: "This technology will come to dominate our business over the next two to four years."

The ferment in sound technology is a major challenge for \$4.4 billion Yamaha, the world's largest maker of musical instruments. The company gets 25% of its revenue from electronic instruments. That's partly because it controls patents worldwide on the first generation of music-synthesis technology—known as FM synthesis—which generates sounds by combining wave forms of different shapes and frequencies. Yamaha made a farsighted decision in 1975 to buy exclusive patent rights to FM synthesis, which Stanford also invented. Thanks to its lock on that technology, Yamaha

sells the chips used in 95% of the circuit boards that give advanced sound to PCs built to the IBM standard.

HEADACHES. When it came to virtual acoustics, however, Yamaha wasn't as lucky. Stanford started shopping its new technology in 1986, and Yamaha was quick to sign on, gaining exclusive rights outside North America. But this time, Stanford refused to sell North American rights to just one company. It also granted licenses to Media Vision, a leading maker of PC sound cards, and to chipmakers Sierra Semiconductor Corp. and Crystal Semiconductor. So Yamaha's historic dominance of synthetic sound for PCs is at risk.

That will be doubly true by next spring. The core patents for FM synthesis expire in April, just as Yamaha will be bracing for competition in virtual acoustics. It has warned would-be competitors not to infringe on patents it holds on variations and improvements of FM synthesis. Still, customers such as Media Vision say they can design FM-synthesis chips that won't infringe on Yamaha's patents—thus ending their dependence on the Japanese company.

As the old alliances unravel, Yamaha intends to go on the offensive this month. It is introducing its own sound card for PCs—cautiously. Its \$300 circuit board won't use the virtual acoustic technology. Instead, it enhances the old

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VISIONARY DISPLAY TECHNOLOGIES

technology of FM synthesis by combining it with digital sampling, another commonly used synthesis scheme that stores and replays actual recordings of instruments, note by note. Why not jump to virtual acoustics right away? Robert Starr, national sales and marketing manager for Yamaha Systems Technology, says it's because the new method requires massive computation power to sound realistic, making it too costly for PCs any time soon.

NEW LEGATO. By moving gradually, however, Yamaha risks being outflanked by Media Vision, which intends to use virtual acoustics in a PC sound chip due in early 1994. There's no word on whether computer makers might buy it, but Media Vision will price it aggressively: a little more than Yamaha's \$15 FM synthesis chip but below Yamaha's \$35 chip that uses both FM and sampling. Says Media Vision's Gupta: "I believe Yamaha will get edged out of the computer business by competing technology. Not so, says Starr, who says a dedicated PC makers will build Yamaha chips into their computers by the end of the year.

The skirmishing underscores just how much of a breakthrough virtual acoustics is. Because it mimics how instruments create music, the synthesizer sounds amazingly like the real thing. It's especially good at duplicating the complex, momentary transitions from note to note instead of cutting off one note before starting the next.

Stanford's breakthrough was in modeling that complex behavior efficiently. Inventor Smith, an associate professor at Stanford's Center for Computer Research in Music & Acoustics, created mathematical models of instruments that reduced by 99.9999% the number of computations previously required. As a result, the computer can calculate as quickly as a musician plays—meaning music comes forth immediately, not a week later. Yamaha has built on Stanford's virtual-acoustics base with 13 patents of its own. Because of that effort, Smith predicts, "Yamaha will be the standard on quality and eventually else will go for the best approximation."

Of course, even with the new technology, synthesizers won't match everything about a live performance: "We know we'll have it perfect when we have a synthesizer that shows up during two hours late for a recording session," quips Charles Feilding, manager of Yamaha's Sound Design Office at Buena Park (Calif.) headquarters. At Yamaha and others vie for ultimate fidelity, that's one real-life feature they probably leave out.

By Larry Armstrong in Buena Park, Calif.

capability: executive programs

SURVIVING THE PEACE

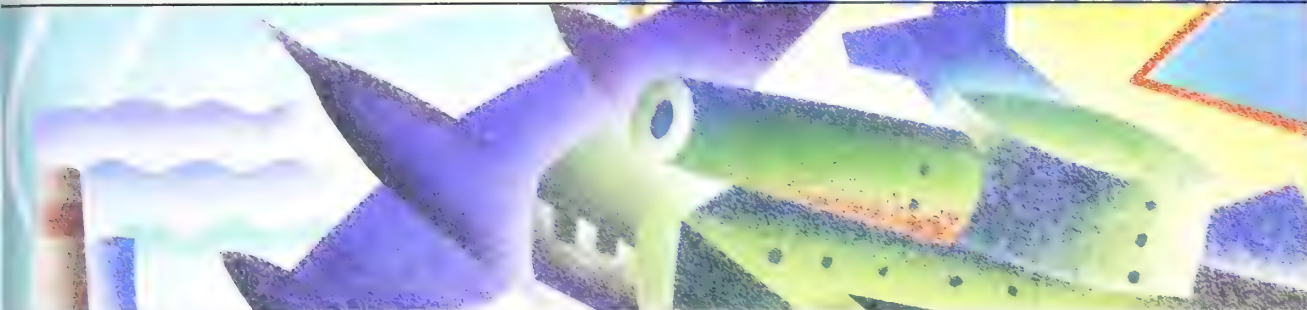


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THE PROFIT PACE SPEED

CORPORATE AMERICA'S THIRD-QUARTER EARNINGS ARE UP 26% OVERALL, THANKS

It's a bell-ringer of a bottom line. Profits for the 900 companies in BUSINESS WEEK's Corporate Scoreboard rose by a hefty 26% in the third quarter. That's slightly lower than the 31% advance of a year earlier, but a whole lot better than the 13% gain of the second quarter, when results were depressed by IBM's huge loss. The latest earnings results were all the more surprising since sales growth slowed to an anemic 4%, the most sluggish rise since 1992's first quarter, when it was 3%.

So what gives? As in previous quarters, much of the profit growth came from Corporate America's ongoing cost-cutting. Net profit margins expanded to 4.9% from 4.0% a year ago. An uptick in the economy also helped boost earnings. The U.S. economy grew by 2.8% in the third quarter, after a sluggish 1.9% expansion in the second quarter. "We don't have a booming economy," says Richard D. Rippe, chief economist at Prudential Securities Inc., "but we have one that's showing moderate growth."

OUTER LIMITS. Still, many economists believe it's unlikely that companies will be able to keep up the profit pace for long. The benefits of corporate restructuring may start waning—especially with sales growth so paltry. "If sales don't start to grow more rapidly I would expect the increase in profits to slow, too," says Tony Riley, director of research at A. Gary Shilling & Co. "Presumably there is only so far you can go in cutting costs before

the law of diminishing returns sets in." Riley thinks that earnings growth may slow to 20% in the final quarter. And for all of 1994, he sees earnings growth of only 10%.

Worried forecasts aside, the third-quarter results were indeed impressive. Among industries, auto makers scored one of the biggest profit improvements. As a group, they earned \$497.6 million. That may not sound great. But it's a lot better than the industry's staggering loss of \$1.2 billion a year ago. Stronger vehicle sales helped. And last year's results were also

marred by heavy restructuring charges incurred at General Motors Corp.

Chrysler Corp. turned in the best profit increase among the carmakers, posting an impressive 109% earning leap, to \$423 million. It was the biggest third-quarter increase ever for the company. Ford also had a good quarter, with a profit of \$463 million, compared with a \$272 million loss a year ago. Meanwhile, GM continued to sputter along in the

WINNERS AND LOSERS

THE COMPANIES

WHO MADE THE MOST

WHO LOST THE MOST

	Millions of dollars	
EXXON	\$1,360	DUPONT
GENERAL ELECTRIC	1,206	COMPUTERVISION
AT&T	1,073	U S WEST
PHILIP MORRIS	971	CONNER PERIPHERALS
MERCK	706	CHEMICAL WASTE MANAGEMENT
PROCTER & GAMBLE	670	NAVISTAR INTERNATIONAL
MOBIL	666	NOVELL
BRISTOL-MYERS SQUIBB	608	PFIZER
COCA-COLA	590	ARMCO
INTEL	584	USAIR GROUP
GTE	558	WEST POINT-PEPPERELL
CITICORP	528	WMX TECHNOLOGIES
FANNIE MAE	528	EASTMAN KODAK
AMOCO	520	ILLINOIS POWER
CHEMICAL BANKING	502	GENERAL MOTORS

*FISCAL FIRST QUARTER

DATA: STANDARD & POOR'S COMPUSTAT



UP SHARPLY

INUED COST-CUTTING. BUT HOW LONG CAN THAT GO ON?

ed. Still, its losses narrowed considerably, to \$113 million from \$1.1 billion a year ago.

Retailers also scored a big profit advance. The industry's combined earnings rose 152%, to \$1.9 billion, thanks to more eager shoppers: In the third quarter, consumer spending rose by 2%, compared with 3.4% in the second quarter. Retailers' sales jumped 10%, to \$86.3 billion. It was the highest dollar

increase for any industry this quarter.

Sears, Roebuck & Co.'s results showed the biggest improvement. The giant retailer earned \$454 million in the third quarter, compared with nearly \$1 billion in losses a year earlier, when the company's Allstate Insurance Cos. unit was clobbered by claims resulting from Hurricane Andrew. Still, on closer inspection, some retailers didn't fare so well. Hurt in part by losses at its Pace Membership Warehouse chain, Kmart Corp.'s earnings tumbled by 39%, to \$102 million. On Nov. 2, Kmart announced that it

would sell much of the Pace subsidiary to Wal-Mart Stores Inc.

Airlines fared well, too. The industry earned \$223 million, compared with a \$371 million loss in the third quarter of 1992. It was the group's second straight quarterly profit. Operating costs were down, thanks to lower fuel prices and low interest rates. A cease-fire in the constant fare wars also helped. One of the biggest improvements came at AMR Corp., parent of American Airlines Inc. It posted a profit of \$125 million in the third quarter, compared with a \$100 million loss a year ago.

The computer industry also did bet-

ter in the third quarter, although as a group, it lost \$51.6 million. Still, those results are far better than the industry loss of \$2.3 billion a year ago, after IBM took a \$4.4 billion pretax restructuring charge. Big Blue continued to spill red ink in the third quarter, but at a slower pace. IBM's losses narrowed to \$48 million in the third quarter, from a staggering \$2.8 billion a year ago. The company's improved results had the biggest positive impact on third-quarter profits. Excluding the computer giant's earnings turnaround, overall profits would have risen by a mere 18%.

DUDS. Chemical companies turned in the the worst industry performance in the third quarter, largely because of weak global demand. The group's profits decreased 98%, to \$28.5 million, compared with a profit of \$1.4 billion a year ago. The re-

THIRD-QUARTER PROFITS

THE INDUSTRIES

SHARPEST GAINS

THE DEEPEST DROPS

	Percent change from 1992's third quarter		Percent change from 1992's third quarter
MACHINERY	262%	POLLUTION CONTROL	LOSS
FACTORS	189	TEXTILES	LOSS
	152	ALUMINUM	LOSS
WEST	130	COMPUTERS & PERIPHERALS	LOSS
ATION & REAL ESTATE	92	STEEL	LOSS
SERVICES	83	PAPER CONTAINERS	LOSS
ATION SERVICES	77	CHEMICALS	-98%
	74	COMPUTER SOFTWARE	-98
S & EQUIPMENT	67	GAS UTILITIES	-69
ST	65	PAPER	-59
CS	54	MISC. LEISURE	-41
TING	50	OTHER METALS	-37
ERATES	48	SAVINGS & LOAN	-36
& SHIPPING	44	TOBACCO	-33
CESSING	44	PRINTING & ADVERTISING	-33

ALL-INDUSTRY AVERAGE: +26%



Corporate Scoreboard

sults were made even worse by DuPont Co.'s steep loss. The chemical giant reported a \$680 million loss after taking \$1.8 billion in pretax restructuring charges made necessary by the weak chemical market. That made DuPont the biggest money-loser in the third quarter. A year ago, it earned \$420 million.

As a group, telephone companies also did poorly. Their profits fell 11%, to \$2.6 billion. The decrease is mostly the result of U S West Inc.'s loss of \$375 million

due to \$1 billion in pre-tax restructuring charges to streamline its business. U S West previously announced that it plans to cut 9,000 jobs in the next three years. A year ago, the company earned \$243.3 million.

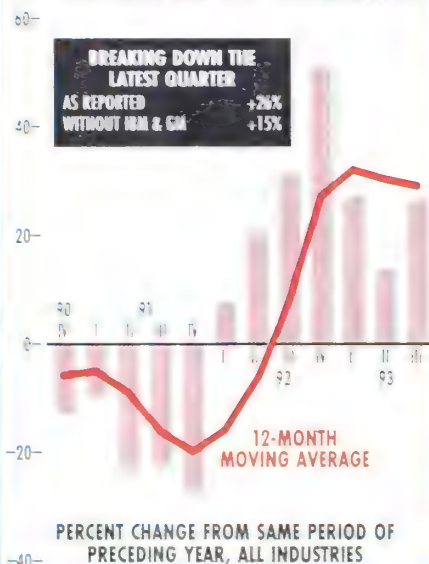
SCARE BEARS. Looking ahead, economists remain skittish. Bear, Stearns & Co.'s chief economist, Lawrence A. Kudlow, expects growth to remain slow for another couple of years. Indeed, many economists agree that growth may hit

just 2.5% to 3% next year, with this year coming in at 2.9%. Moreover, Kudlow worries that the economy may accelerate to a mere 2% growth rate by the end of 1994. That means that the increase in consumer spending may not be sustained. And sales growth could slow even more. If that turns out to be the case, the third quarter's results may be the best news on the profit front in some time to come.

By Lori Bongiorno in New York

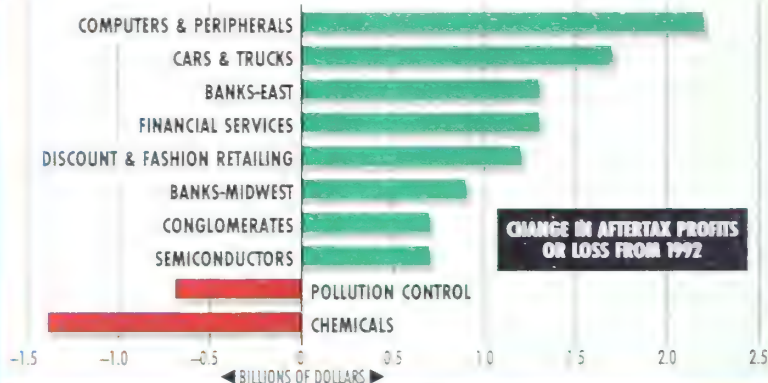
A SPOTLIGHT ON THIRD-QUARTER PROFITS

AFTERTAX PROFITS, QUARTER BY QUARTER

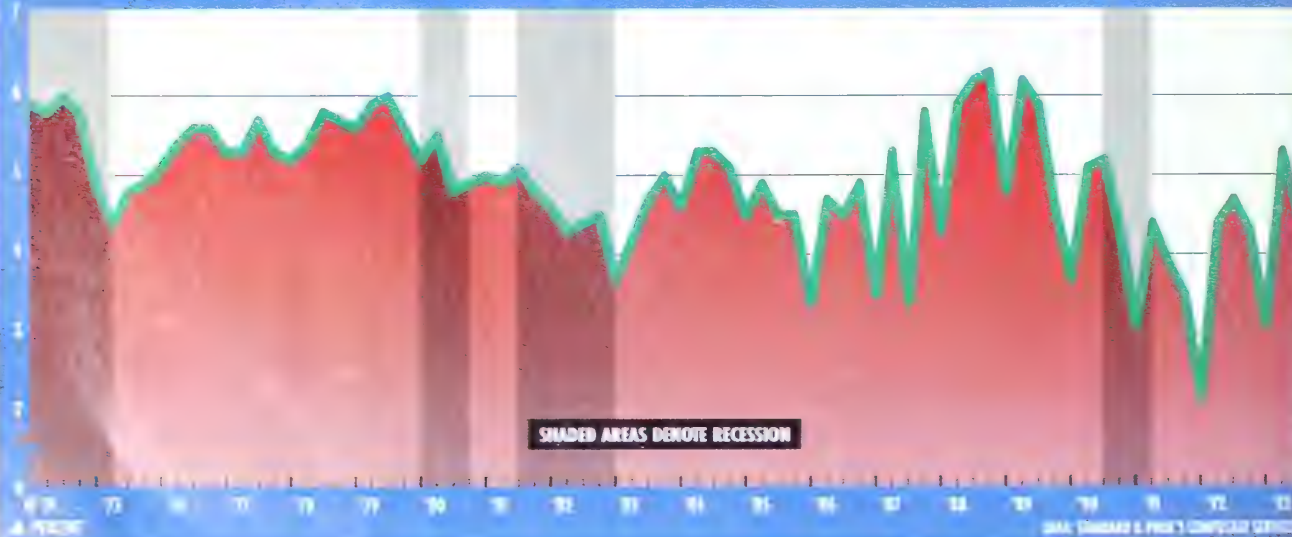


INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

The 26% gain in third-quarter profits is double the rate of the second quarter. Even some losers gave the numbers a boost: Both GM and IBM spilled red ink this quarter, but their combined losses narrowed by \$3.7 billion. Among retailers, Sears turned a near \$1 billion third-quarter 1992 loss into a \$454 million profit this time around—almost as much as Wal-Mart made. Conversely, restructuring handed DuPont a negative \$1.1 billion earnings swing.



PROFIT MARGINS STAGE A HALTING RECOVERY



CORPORATE SCOREBOARD

THIRD QUARTER 1993

GLOSSARY

Revenues: Includes all sales and other operating revenues. For banks, includes all operating revenues.
Profits: Net income before extraordinary items. For banks, profits are net income after extraordinary gains or losses.

Margins: Net income from continuing operations before extraordinary items as percent of sales.

Return on common equity: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

Price-earnings ratio: Based on Oct. 22, 1993, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

Earnings per share: For most recent 12-month period. Includes all common-stock equivalents.

COMPANY

SALES

PROFITS

MARGINS

RETURN ON COMMON EQUITY

PRICE-EARNINGS RATIO

12 MONTHS' EARNINGS PER SHARE

	3RD QUARTER 1993 \$ MIL.	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL.	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL.	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL.	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %	12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
ALL-INDUSTRY COMPOSITE	988428.9	4	2942270.0	5	48150.3	26	140557.6	19	4.9	4.0	12.1	22	1.81

AEROSPACE & DEFENSE

INDUSTRY COMPOSITE	20607.2	-1	64338.0	-1	765.3	5	2429.3	0	3.7	3.5	13.7	13	3.39
Boeing	5153.0**	-25	19782.0	-13	189.0	-45	940.0	-21	3.7	5.0	15.0	10	3.82
Boeing Corp (1)	482.1	7	1375.9	-3	7.7	57	31.6	53	1.6	1.1	14.4	16	1.05
General Dynamics	900.0	5	2571.0	1	72.0	148	170.0	79	8.0	3.4	22.6	9	10.30
Lockheed Martin	791.4**	3	2409.4	-6	29.9	28	91.0	19	3.8	3.0	16.0	9	3.93
Lockheed	3475.0	40	9332.0	30	117.0	36	287.0	25	3.4	3.5	18.5	10	6.52
Martin Marietta	2466.1	59	6248.0	39	131.1	36	331.6	23	5.3	6.2	22.1	11	3.97
Orthrop	1220.0	-6	3807.0	-6	26.0	NM	131.0	99	2.1	NM	14.0	9	3.91
Bohr (5)	252.4	-28	891.3	-7	0.1	-99	-37.4	NM	0.1	2.7	-16.8	NM	-1.71
Indstrand	324.7	-12	1007.2	-6	15.5	-36	60.0	52	4.8	6.5	19.6	14	2.77
Lefflex	156.9**	14	489.4	17	5.9	-4	23.7	5	3.8	4.5	12.9	16	1.92
Lockheed (6)	257.7	-11	862.9	-12	14.0	4	49.8	2	5.4	4.7	14.5	8	3.14
United Technologies	5128.0**	-5	15562.0	-4	157.0	25	351.0	-5	3.1	2.3	-0.7	NM	-0.22

AUTOMOTIVE

INDUSTRY COMPOSITE	75598.3	4	247328.1	8	889.9	NM	5707.1	NM	1.2	NM	11.1	30	1.61
TRUCKS	66403.5	4	219378.8	8	497.6	NM	4539.1	NM	0.8	NM	9.0	40	1.30
GROUP COMPOSITE	66403.5	4	219378.8	8	497.6	NM	4539.1	NM	0.8	NM	9.0	40	1.30
Crysler	9713.0**	5	31648.0	18	423.0	109	1638.0	NM	4.4	2.2	32.3	9	5.73
Ford Motor	24498.0	5	80680.0	8	463.0	NM	1810.0	436	1.9	NM	4.4	43	1.39
General Motors	30185.5**	2	101173.3	4	-112.9	NM	1289.4	NM	NM	NM	4.4	NM	-0.40
Avistar International (2)	1123.0	22	3394.0	24	-312.0	NM	-295.0	NM	NM	NM	NM	NM	-12.74
Isuzu	884.1**	29	2483.5	35	36.5	101	96.7	141	4.1	2.7	11.3	17	3.60

MACHINERY & EQUIPMENT

INDUSTRY COMPOSITE	5801.2	9	17893.3	11	208.4	67	662.4	82	3.6	2.3	17.3	17	2.31
Win Industries	474.2	0	1470.7	2	7.4	-38	30.0	-2	1.6	2.5	9.4	15	1.78
Win Engine	988.3	9	3130.1	15	40.7	195	130.0	246	4.1	1.5	32.3	10	8.66
Win	1290.7**	9	4032.5	12	33.2	168	93.3	332	2.6	1.0	15.6	23	2.51
Win (5)	149.2	16	407.6	10	9.0	22	21.9	12	6.0	5.7	17.1	20	2.03
Win-Picher Industries (1)	162.2	4	485.6	8	8.3	0	26.7	23	5.1	5.3	NM	1	3.08
Win	1053.0	4	3286.0	7	44.0	57	147.0	46	4.2	2.8	17.7	19	2.66
Win (4)	520.9	9	1487.2	9	28.2	42	74.7	46	5.4	4.2	13.2	19	1.60
Win-Mogul	370.0	24	1182.3	31	10.0	233	32.8	310	2.7	1.0	6.5	37	0.71
Win Mfg. (9)	157.0	9	450.0	8	11.6	37	31.0	27	7.4	5.9	16.2	20	1.27
Win (A.O.)	272.8	13	884.7	13	5.5	31	33.6	60	2.0	1.7	14.8	14	1.95
Win Motor Products	161.3	17	450.3	8	5.7	103	15.3	161	3.5	2.0	10.8	16	1.39
Win Products (6)	201.7	23	626.3	22	4.9	9	26.0	19	2.4	2.7	15.3	16	2.21

PLASTIC & RUBBER

INDUSTRY COMPOSITE	3393.5	-2	10056.0	-1	183.9	27	505.6	27	5.4	4.2	22.2	15	2.59
Win	154.3	0	429.8	0	22.5	1	55.7	-8	14.6	14.5	21.8	19	2.85
Win Tire & Rubber	326.1	7	898.8	2	25.2	-17	74.4	0	7.7	10.0	20.3	17	1.30
Win Tire & Rubber	2913.1	-3	8727.4	-1	136.2	49	375.5	42	4.7	3.0	22.7	14	3.29

Third quarter ended Aug. 31. (2) Third quarter ended July 31. (3) Fourth quarter and most recent six months ended Sept. 30. (4) Fourth quarter and most recent six months ended Aug. 31. (5) Fourth quarter and most recent six months ended July 31. (6) First quarter and most recent six months ended Sept. 30. (7) First quarter and most recent six months ended Aug. 31. (8) Fourth quarter and most recent six months ended July 31. (9) Second quarter and most recent six months ended Sept. 30. (10) Second quarter and most recent six months ended Aug. 31. (11) Fourth quarter and most recent six months ended July 31. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. †Revenues from subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common-stock equivalents and extraordinary items. NA = not available. NM = not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT SERVICES, A DIVISION OF MCGRAW-HILL INC.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS			RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-22	12 MONTH EARN PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %				
3 BANKS														
INDUSTRY COMPOSITE	54592.2	4	159539.3	2	6957.5	61	18446.1	47	12.7	8.2	14.7	11	3.6	
(a) BANKS-EAST GROUP COMPOSITE	29438.3	6	85379.4	3	3307.2	65	8158.2	46	11.2	7.3	14.8	10	3.9	
Bank of Boston	2019.1	38	5064.8	16	41.4	-24	172.3	20	2.1	3.7	9.6	12	1.9	
Bank of New York	963.0	-1	2888.0	-1	151.0	45	402.0	43	15.7	10.7	13.1	10	5.3	
Bankers Trust New York	2106.0	27	5760.0	15	310.0	87	791.0	56	14.7	10.0	24.4	7	11.3	
Chase Manhattan	2814.0	5	8386.0	1	267.0	52	153.0	-67	9.5	6.6	3.0	31	1.1	
Chemical Banking	3077.0	2	9300.0	0	502.0	78	1257.0	61	16.3	9.3	15.8	7	5.4	
Citicorp	8095.0	1	23797.0	0	528.0	355	1344.0	204	6.5	1.4	14.8	11	3.1	
CoreStates Financial	516.3	0	1504.1	-5	86.0	27	242.6	26	16.7	13.2	17.0	11	2.6	
First Fidelity Bancorporation	612.7	3	1820.4	-1	101.5	23	292.1	30	16.6	13.8	15.9	9	4.3	
Fleet Financial Group	1246.3	0	3563.4	0	127.1	66	352.0	78	10.2	6.1	13.9	12	2.4	
Integra Financial	278.8	-10	837.2	-3	37.2	-12	115.5	27	13.3	13.6	18.0	10	4.2	
KeyCorp	710.9	5	2120.6	5	102.6	31	297.4	31	14.4	11.5	16.6	9	3.4	
Mellon Bank	843.0	9	2400.0	6	114.0	-27	247.0	-26	13.5	20.2	11.3	12	4.3	
Midlantic	248.7	-19	761.9	-27	46.9	175	72.3	NM	18.9	5.5	7.9	16	1.4	
Morgan (J. P.)	3124.0	15	8953.0	14	468.0	46	1331.0	46	15.0	11.8	21.4	9	8.0	
PNC Bank	1056.1	6	3124.8	2	217.7	64	573.8	49	20.6	13.3	18.1	9	3.0	
Republic New York	589.8	-1	1729.1	-1	77.6	15	221.3	15	13.2	11.4	13.9	10	4.6	
Shawmut National	483.8	1	1443.5	-6	71.1	609	110.9	123	14.7	2.1	7.4	20	1.1	
State Street Boston	388.3	7	1122.8	6	46.3	11	132.1	13	11.9	11.6	17.1	17	2.1	
UJB Financial	265.6	-4	802.9	-6	11.8	-27	50.8	41	4.5	5.9	7.2	20	1.1	
(b) BANKS-MIDWEST GROUP COMPOSITE	10553.9	4	31001.4	1	1681.9	130	4620.9	63	15.9	7.2	16.2	11	2.9	
Banc One	1794.6	-1	5399.0	-3	284.9	16	834.3	24	15.9	13.5	16.6	12	3.1	
Boatmen's Bancshares	523.5	3	1519.6	0	77.9	7	224.4	20	14.9	14.3	13.2	12	2.9	
Comerica	548.1	-5	1662.5	-7	83.7	-3	250.5	64	15.3	15.1	15.3	9	2.1	
Continental Bank	456.0	6	1306.0	-3	68.0	28	190.0	18	14.9	12.4	14.8	7	3.1	
Fifth Third Bancorp	241.5	8	710.5	7	51.6	19	144.1	20	21.4	19.3	17.0	17	3.1	
First Bank System	556.9	2	1674.5	0	91.1	50	202.1	18	16.4	11.1	7.5	24	1.1	
First Chicago	1354.1	26	3655.8	13	284.1	NM	631.7	NM	21.0	NM	23.2	5	8.1	
First of America Bank	450.4	-4	1351.0	-3	63.4	11	181.6	36	14.1	12.3	15.7	11	3.1	
Firststar	304.6	2	902.4	1	51.4	19	151.8	25	16.9	14.5	17.2	11	3.1	
Huntington Bancshares	385.8	12	1103.6	6	59.4	51	168.1	50	15.4	11.4	18.9	11	2.1	
Mercantile Bancorporation	220.8	-6	671.8	-1	30.3	26	85.5	23	13.7	10.3	13.3	10	4.1	
National City	669.0	-2	1998.1	-5	102.7	15	300.5	17	15.3	13.2	15.6	11	2.1	
NBD Bancorp	799.4	-5	2413.3	-5	125.2	248	362.9	60	15.7	4.3	14.8	11	2.1	
Northern Trust	320.3	5	941.3	2	42.8	12	124.6	12	13.4	12.5	17.2	15	2.1	
Norwest	1300.2	6	3884.7	8	167.3	26	478.6	28	12.9	10.8	16.6	15	1.1	
Society	628.8	9	1807.3	-1	98.2	19	290.1	35	15.6	14.3	18.6	9	3.1	
(c) BANKS-SOUTH & SOUTHEAST GROUP COMPOSITE	7423.5	4	21575.6	-1	1049.3	16	3022.5	25	14.1	12.7	14.5	11	3.1	
AmSouth Bancorporation	235.4	14	685.2	11	35.1	33	103.6	38	14.9	12.7	14.0	10	3.1	
Barnett Banks	775.5	-8	2371.1	-9	111.1	56	307.7	52	14.3	8.5	11.5	14	3.1	
Crestar Financial	274.5	3	804.8	-1	37.2	73	101.8	96	13.5	8.1	12.1	12	3.1	
First Union	1464.6	6	4259.5	2	195.4	21	622.2	66	13.3	11.7	15.1	9	4.1	
NationsBank	2641.0	7	7424.0	-2	341.0	-3	928.0	2	12.9	14.2	13.7	11	4.1	
Signet Banking	298.1	17	851.2	9	45.8	60	124.5	61	15.4	11.3	17.6	12	2.1	
SouthTrust	279.2	14	814.9	14	39.1	34	111.2	35	14.0	11.9	15.0	10	1.1	
SunTrust Banks	772.8	-2	2318.1	-5	120.3	13	354.5	13	15.6	13.5	16.4	12	3.1	
Wachovia	682.4	-1	2046.8	-3	124.4	14	369.1	14	18.2	15.7	16.2	14	2.1	
(d) BANKS-WEST & SOUTHWEST GROUP COMPOSITE	7176.4	-5	21582.9	1	919.0	36	2644.4	51	12.8	9.0	12.5	10	4.1	
Bancorp Hawaii	241.7	5	706.9	0	30.1	-5	96.9	3	12.5	13.8	13.5	10	4.1	
BankAmerica	3952.0	-7	11905.0	7	486.0	2	1458.0	43	12.3	11.2	12.3	9	4.1	
First Interstate Bancorp	972.9	-2	2929.1	-6	150.5	100	406.0	103	15.5	7.6	13.9	11	5.1	
U. S. Bancorp	504.3	8	1462.1	2	65.8	58	190.9	34	13.1	8.9	15.2	10	2.1	
Union Bank	316.5	-7	950.8	-9	21.6	-27	70.7	-8	6.8	8.7	8.0	11	2.1	
Wells Fargo	1189.0	-8	3629.0	-8	165.0	588	422.0	88	13.9	1.8	12.2	15	7.1	
4 CHEMICALS														
INDUSTRY COMPOSITE	29522.9	-4	90781.8	-2	28.5	-98	2863.1	-35	0.1	4.6	5.7	45	0.1	
Air Products & Chemicals (3)	855.5	2	2514.2	2	-14.2	NM	131.9	-38	NM	8.5	9.4	23	1.1	
American Cyanamid	899.4	-4	3291.4	2	49.6	-7	-70.4	NM	5.5	5.7	0.1	NM	0.1	
Arco Chemical	782.0	-1	2352.0	1	47.0	-33	146.0	-2	6.0	8.9	12.2	22	2.1	
Betz Laboratories	176.5	-3	516.5	-3	17.6	-18	55.6	-10	10.0	11.7	21.7	17	2.1	
Crompton & Knowles	134.0	2	415.5	9	11.5	14	39.5	20	8.6	7.6	21.6	20	0.1	
Dexter	220.1	-5	665.9	-8	8.3	-9	25.8	-13	3.8	3.9	10.9	17	1.1	
Dow Chemical	4370.0**	-8	13555.0	-5	139.0	-9	690.0	32	3.2	3.2	5.3	35	1.1	
DuPont	9231.0***	-5	27847.0	-3	-680.0	NM	329.0	-71	NM	4.3	1.3	NM	0.1	

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9/30	PRICE/EARNINGS RATIO 10/22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
Engelhard	558.1**	-5	1611.5	-13	27.6	15	78.2	9	4.9	4.1	16.9	25	1.09
Thyl	486.9	6	1451.7	19	20.0	-11	77.1	17	4.1	4.8	19.1	13	1.35
Enro	263.7	-3	800.5	-4	15.0	1	41.7	-2	5.7	5.4	16.8	17	1.86
Reepert-McMoRan	311.6	-15	950.1	-24	32.4	-75	-82.2	NM	10.4	35.1	-90.1	NM	-0.56
Fuller (H. B.) (1)	252.2	6	727.5	4	8.8	-15	20.6	-22	3.5	4.3	11.4	15	2.13
Leon	254.5	12	724.2	7	5.5	NM	6.7	NM	2.2	NM	-3.1	NA	NA
Georgia Gulf	199.6	0	576.7	-1	10.1	-7	31.7	-15	5.1	5.5	NM	19	0.98
Goodrich (B. F.)	500.8	-23	1330.0	-30	17.2	537	65.8	435	3.4	0.4	4.8	32	1.40
Great Lakes Chemical	469.7	28	1361.7	25	68.5	14	202.8	18	14.6	16.4	22.9	20	3.69
Lanna (M. A.)	400.3**	13	1167.3	18	8.9	28	21.6	37	2.2	1.9	7.7	20	1.60
MC Fertilizer Group (6)	266.4	21	745.1	-3	-22.5	NM	-165.0	NM	NM	8.4	-37.4	NM	-7.30
International Specialty Products	129.2	-9	423.6	-3	6.8	-63	32.9	-39	5.3	12.8	6.8	17	0.36
Octite	153.4	-4	460.6	0	16.3	-24	53.4	1	10.6	13.5	21.0	18	2.04
Ubrizol	392.8	8	1154.4	-4	-15.9	NM	50.9	-53	NM	5.2	8.6	34	0.99
Yonell Petrochemical	885.0	-34	3030.0	-16	9.0	-25	-10.0	NM	1.0	0.9	NM	NM	0.10
Tonsanto	1849.0	-2	6020.0	2	95.0	107	436.0	52	5.1	2.4	0.7	NM	0.26
Morton International (6)	619.6	15	1846.1	15	42.9	23	99.5	-10	6.9	6.5	11.2	35	2.72
Alco Chemical	354.0	1	1040.5	2	38.7	11	111.9	7	10.9	10.0	27.9	16	2.02
IL Industries	202.1	-13	622.0	-10	-18.7	NM	-60.2	NM	NM	NM	NM	NM	-1.52
Lin	606.8	5	1824.2	0	5.0	-15	31.0	-39	0.8	1.0	2.5	35	1.24
Raxair	608.0	-7	1825.0	-7	32.0	-3	103.0	7	5.3	5.1	14.6	23	0.67
Ohm & Haas	799.0**	-1	2509.0	9	-21.0	NM	100.0	-45	NM	6.3	6.1	40	1.24
Chulman (A.) (4)	160.4**	-13	509.3	-8	12.0	-6	29.9	-13	7.5	6.9	12.9	23	1.30
Enra Industries	250.5**	31	1070.8	10	-2.5	NM	28.4	52	NM	NM	8.1	16	0.29
Union Carbide	1130.0	-9	3567.0	-3	38.0	73	121.0	21	3.4	1.8	8.2	24	0.83
Fellman	210.2	-1	632.2	1	7.0	-45	41.6	5	3.3	6.0	10.6	10	1.66
Fico	540.6	27	1643.2	29	13.6	-28	47.3	-15	2.5	4.4	6.0	32	0.93

CONGLOMERATES

INDUSTRY COMPOSITE	37835.8	2	111525.3	3	2269.3	48	5813.4	25	6.0	4.1	12.8	24	2.84
AlliedSignal †	2822.0	-4	8778.0	-2	168.0	24	487.0	23	6.0	4.6	26.2	16	4.42
Altec Industries	316.1	-4	990.6	-4	18.5	-7	42.0	4	5.9	6.0	NM	17	0.95
Art Group (11)	331.7	6	992.3	6	0.7	-34	-0.4	NM	0.2	0.3	0.5	NM	0.57
Al	770.4	4	2182.5	0	37.2	15	81.7	14	4.8	4.4	7.3	58	0.71
General Electric	14858.0**	4	42475.0	4	1206.0	21	2947.0	-5	8.1	7.0	17.1	20	4.87
Marquart General (2)	1157.2**	17	3128.7	12	106.8	51	144.4	53	9.2	7.1	15.9	21	2.06
T	5205.0	-5	15824.0	-1	252.0	123	744.0	108	4.8	2.1	1.2	NM	0.63
TV	1053.2	12	3045.8	6	0.4	NM	140.1	NM	0.0	NM	35.4	NA	NA
National Intergroup (9)	1371.1	14	3991.3	27	0.1	-96	1.1	-93	0.0	0.3	-2.8	NM	-0.51
all (5)	198.9	-3	538.9	-2	39.1	6	67.3	-19	19.7	18.0	14.4	31	0.68
enn Central	420.6	20	1174.2	15	86.2	663	192.3	485	20.5	3.2	12.4	7	4.43
Remark International	744.8	4	2214.1	4	32.9	NM	97.9	NM	4.4	NM	20.0	16	4.48
ledyne	597.9	-16	1858.8	-14	15.2	-7	57.1	61	2.5	2.3	24.4	22	1.22
enneco	3150.0	-1	9879.0	1	116.0	152	301.0	130	3.7	1.4	-21.9	NM	-3.80
exton	2232.3	10	6648.4	8	99.5	19	276.6	18	4.5	4.1	14.0	14	4.09
W	1903.0	-6	5943.0	-4	51.0	19	157.0	16	2.7	2.1	14.2	20	3.35
Whitman	703.7	6	1860.9	5	39.8	14	77.3	18	5.7	5.3	21.6	16	0.97

CONSUMER PRODUCTS

INDUSTRY COMPOSITE	62748.8	1	182787.3	3	4023.6	-5	10824.9	-11	6.4	6.2	20.6	19	1.84
Apparel	6275.8	3	17148.1	6	399.8	74	981.7	33	6.4	3.8	15.5	15	1.92
Group Composite	6275.8	3	17148.1	6	399.8	74	981.7	33	6.4	3.8	15.5	15	1.92
rown Group (11)	456.6	10	1370.3	7	5.5	1	18.8	NM	1.2	1.3	10.4	20	1.72
artmarx (1)	189.0	-28	547.8	-35	1.9	NM	-2.8	NM	1.0	NM	2.8	52	0.13
ones Apparel Group	165.7	19	432.4	26	19.6	13	41.0	17	11.8	12.5	29.6	16	1.81
ellwood (8)	298.5	19	843.4	20	9.9	17	22.7	22	3.3	3.4	10.5	17	2.19
A. Gear (1)	143.0	5	303.9	-13	7.2	NM	-17.5	NM	5.1	NM	-86.1	NM	-2.48
z Claiborne	621.9	1	1660.2	1	38.3	-41	110.4	-34	6.2	10.4	16.0	9	1.98
ike (7)	1107.9	1	3063.2	9	114.1	-7	280.5	2	10.3	11.1	20.8	10	4.63
ine West Group	158.7	19	404.5	18	18.7	32	45.7	62	11.8	10.6	34.2	17	1.78
xford Industries (7)	148.7	11	423.7	7	4.0	28	11.0	19	2.7	2.3	13.5	13	1.80
illips-Van Heusen (11)	264.0	10	758.4	12	7.8	20	15.2	3	2.9	2.7	17.3	24	1.38
ebok International	808.5	-6	2291.3	-3	63.9	-14	172.7	-5	7.9	8.6	12.7	24	1.20
ussell	266.6	3	680.3	6	-3.8	NM	25.0	-52	NM	9.2	9.4	20	1.34
ride Rite (1)	166.5	-1	471.8	-1	18.4	-11	52.9	-11	11.0	12.3	18.3	15	1.08
umberland	140.3	52	295.7	46	11.2	63	15.5	91	8.0	7.5	16.9	40	1.83
ltex	187.1**	3	378.4	11	6.3	-37	5.3	-3	3.4	5.5	10.1	15	0.55
F	1152.8	2	3222.9	15	76.8	0	185.3	11	6.7	6.8	16.8	10	4.04

PLIANCES & HOME FURNISHINGS

GROUP COMPOSITE	6965.2	12	20651.8	11	243.6	NM	617.1	143	3.5	NM	11.1	27	1.06
Armstrong World Industries	660.1	0	1901.0	-3	42.3	NM	85.5	NM	6.4	NM	9.1	29	1.49
est Buy (10)	563.0	97	1618.5	86	7.6	190	19.9	122	1.3	0.9	9.4	42	1.38
rcuit City Stores (10)	906.7	26	2803.9	24	28.0	30	106.0	38	3.1	3.0	20.7	21	1.27
ellig-Meyers (10)	204.7**	34	573.9	27	11.4	42	34.5	36	5.6	5.3	11.0	33	0.95

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE/EARNINGS RATIO 10-22	12 MONTH EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
Kimball International (6)	197.9	16	573.3	14	10.3	40	28.8	1	5.2	4.3	10.1	21	1.5
La-Z-Boy Chair (8)	162.1	16	530.3	14	4.0	43	22.0	34	2.5	2.0	10.6	20	1.5
Ladd Furniture	127.3	2	397.3	8	0.4	-45	4.5	42	0.3	0.6	4.0	31	0.2
Leggett & Platt	395.4	16	1130.1	15	22.3	19	62.9	29	5.6	5.5	17.1	23	1.9
Maytag	770.2	5	2240.3	-1	23.0	NM	33.8	NM	3.0	NM	7.7	36	0.4
Pier 1 Imports (10)	181.4	9	505.8	8	7.3	-1	17.3	-14	4.0	4.5	9.5	21	0.5
Sealy (1)	189.9	9	508.4	6	12.5	121	18.9	178	6.6	3.2	8.0	NA	0.7
Sunbeam-Oster	219.3	10	802.1	11	16.3	37	64.9	45	7.4	6.0	15.0	20	0.9
Toro (5)	176.4	28	570.9	9	2.6	NM	17.2	NM	1.5	NM	9.0	24	1.0
Whirlpool	1909.0	0	5629.0	3	70.0	27	162.0	13	3.7	2.9	15.2	21	3.1
Zenith Electronics	301.8	-4	867.0	1	-14.5	NM	-61.0	NM	NM	NM	-45.7	NM	-2.6
(c) BEVERAGES													
GROUP COMPOSITE	15280.4	8	42764.9	8	1002.7	-24	3462.0	0	6.6	9.4	26.3	25	1.6
Anheuser-Busch	3156.7	2	8650.9	0	-75.0	NM	427.7	-49	NM	10.0	12.9	23	2.1
Brown-Forman (8)	322.5	-1	1017.8	8	29.5	-16	99.2	-2	9.1	10.8	19.5	15	5.4
Coca-Cola	3629.0	3	10584.0	8	590.0	9	1722.0	16	16.3	15.4	49.7	26	1.6
Coca-Cola Bottling Consolidated	181.9	6	530.7	8	5.7	480	13.1	693	3.1	0.6	41.1	24	1.4
Coca-Cola Enterprises	1487.0	10	4143.0	8	-30.0	NM	-18.0	NM	NM	1.3	-3.9	NM	-0.3
Dr Pepper/Seven-Up	186.9	11	540.7	7	24.3	NM	72.6	NM	13.0	0.1	NM	21	0.9
PepsiCo	6316.4	14	17298.3	14	458.2	9	1145.4	11	7.3	7.6	23.9	23	1.7
(d) PERSONAL CARE													
GROUP COMPOSITE	13414.4	-1	39094.3	0	1139.8	32	1290.4	-46	8.5	6.4	16.0	31	1.6
Avon Products	957.1	2	2748.3	4	54.0	0	144.2	101	5.6	5.7	111.0	14	3.4
Block Drug (9)	153.5	-4	458.8	0	10.8	-32	41.3	-11	7.0	9.9	11.3	11	2.9
Clorox (6)	449.7	14	1319.7	-2	46.3	4	142.6	51	10.3	11.2	19.7	17	3.1
Colgate-Palmolive	1823.1	-1	5300.9	1	142.8	11	426.0	16	7.8	7.0	23.5	18	3.2
Ecolab	275.5	6	774.1	4	23.3	16	55.1	21	8.5	7.7	20.4	20	2.3
Gillette	1339.7	7	3793.6	4	145.0	13	422.0	12	10.8	10.3	36.8	24	2.5
Helene Curtis Industries (10)	338.1	5	915.7	6	4.2	-48	12.3	-29	1.3	2.5	8.6	15	1.7
NCH (8)	169.6	-3	505.1	-2	7.6	-32	24.3	-16	4.5	6.3	11.7	14	4.1
Procter & Gamble (6)	7564.0	-4	22279.0	-1	670.0	63	-47.0	NM	8.9	5.2	5.8	81	0.6
Stanhome	182.5	0	534.2	0	11.9	2	16.9	-46	6.5	6.4	13.1	17	1.6
Tambrands	161.4	-8	464.8	-10	23.8	-29	52.6	-42	14.8	19.2	69.3	20	2.1
(e) TOBACCO													
GROUP COMPOSITE	20813.0	-5	63128.3	-1	1237.8	-33	4473.7	-15	5.9	8.5	23.4	11	2.2
American Brands	3302.0*	-12	9885.6	-9	85.0	-58	483.4	-26	2.6	5.4	17.0	9	3.5
Culbro (1)	357.9***	23	1034.2	21	0.6	-51	0.5	-81	0.2	0.4	-0.3	NM	-0.0
Philip Morris	12584.0	-1	38305.0	2	971.0	-25	3242.0	-13	7.7	10.2	35.2	11	5.0
RJR Nabisco Holdings	3598.0	-11	11053.0	-5	74.0	-71	426.0	-30	2.1	6.3	6.6	13	0.4
Universal (6)	690.7**	-16	2023.1	-10	18.5	-22	39.7	-13	2.7	2.9	17.9	11	2.2
UST	280.3*	3	827.4	7	88.7	5	282.1	21	31.6	31.0	69.5	18	1.6
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	6810.3	1	20021.2	3	76.1	-61	339.5	-40	1.1	2.9	2.6	43	0.4
(a) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	2743.3	11	7772.3	10	106.4	4	284.6	12	3.9	4.2	13.6	16	1.3
Ball	683.0	21	1883.2	14	3.8	-82	26.2	-48	0.6	3.7	5.6	22	1.2
Crown Cork & Seal	1145.7	12	3227.4	12	59.7	18	145.7	16	5.2	4.9	14.5	19	2.0
Owens-Illinois	914.6	4	2661.7	4	42.9	37	112.7	44	4.7	3.6	21.0	10	0.9
(b) PAPER													
GROUP COMPOSITE	4066.9	-5	12248.9	-1	-30.3	NM	54.9	-82	NM	2.2	-1.5	NM	0.0
ACX Technologies	162.8	16	484.0	9	3.7	NM	10.4	NM	2.3	NM	-2.3	NM	-0.7
Bemis	299.5	2	895.4	2	1.0	-93	27.2	-33	0.3	5.0	11.7	25	0.8
Federal Paper Board	324.0	-4	973.4	-3	-6.0	NM	12.9	-81	NM	7.7	2.3	40	0.9
Greif Bros. (2)	130.8	2	389.7	3	4.1	-27	15.4	-21	3.2	4.4	8.8	18	2.1
Longview Fibre (2)	175.8	-1	510.7	1	14.6	68	33.1	49	8.3	4.9	10.6	20	0.8
Nashua	147.9	-2	430.6	6	4.4	56	10.9	253	3.0	1.9	10.5	13	2.0
Paragon Trade Brands	144.9	8	425.2	18	9.0	28	23.2	44	6.2	5.2	17.6	NA	N
Riverwood International	295.6	-2	849.5	2	-1.8	NM	7.8	-78	NM	2.6	3.3	50	0.2
Sonoco Products	462.1	0	1407.6	4	28.5	5	87.2	12	6.2	5.9	15.0	20	1.0
Stone Container	1242.6	-15	3816.5	-9	-99.2	NM	-233.5	NM	NM	NM	-58.2	NM	-4.4
Temple-Inland	680.9	1	2066.3	3	11.4	-71	60.3	-50	1.7	5.8	5.0	26	1.5
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	86263.1	10	263320.0	9	1924.2	152	8349.8	111	2.2	1.0	12.9	24	1.2
Ames Department Stores (11)	500.4	-15	1689.1	-11	-10.0	NM	-416.9	NM	NM	NM	NM	NA	N
AutoZone (4)	439.2	26	964.3	23	33.9	33	69.8	38	7.7	7.3	24.1	43	1.1
Baker (J.) (11)	232.5	74	578.2	52	6.4	100	13.8	91	2.7	2.4	9.4	13	1.4
Bradlees (11)	392.1	7	1437.9	4	-5.0	NM	16.4	12	NM	NM	12.7	9	1.5
Caldor (11)	544.8	11	1759.2	14	6.7	37	38.7	32	1.2	1.0	15.0	13	2.6
Carter Hawley Hale Stores (11)	494.8**	-1	1711.8	2	-42.5	NM	-25.0	NM	NM	NM	178.4	1	27.6
Charming Shoppes (11)	308.6	7	921.1	9	20.6	-5	62.7	9	6.7	7.5	16.6	18	0.7
CML Group (5)	132.6	34	538.3	32	4.6	54	52.2	61	3.5	3.0	32.6	26	1.1

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993	CHANGE FROM 1992	9 MONTHS 1993	CHANGE FROM 1992	3RD QUARTER 1993	CHANGE FROM 1992	9 MONTHS 1993	CHANGE FROM 1992	3RD QUARTER 1993	3RD QUARTER 1992			
	\$ MIL	%	\$ MIL	%	\$ MIL	%	\$ MIL	%	%	%			
Consolidated Stores (11)	234.4	15	750.0	16	6.6	28	31.4	23	2.8	2.5	16.7	27	0.77
Costco Wholesale (4)	2406.9	14	5945.3	15	34.9	-11	86.6	-7	1.5	1.9	11.9	NA	0.90
Cyton Hudson (11)	4287.0**	8	14228.0	10	24.0	-43	303.0	13	0.6	1.1	13.7	15	4.74
Hard Department Stores (11)	1150.2**	13	3942.9	14	39.2	8	197.9	13	3.4	3.6	12.6	17	2.16
Kollar General (11)	255.6	18	769.1	19	9.6	43	32.3	41	3.8	3.1	19.6	27	0.94
Kison Brothers Stores (11)	338.0	-3	1138.7	2	3.2	-75	45.7	-11	0.9	3.6	14.1	12	2.70
KM Distributors (11)	178.7	-2	543.3	1	1.3	-61	7.2	-41	0.7	1.9	13.2	8	0.98
Kmily Dollar Stores (4)	326.3	10	992.8	11	12.4	13	50.6	15	3.8	3.7	20.5	14	1.15
Merger Department Stores (11)	1502.3**	3	5354.6	4	8.9	NM	135.7	NM	0.6	NM	7.9	14	1.47
Mergerhut	379.3	7	1172.0	15	13.8	145	34.5	31	3.6	1.6	16.1	20	1.38
Map (11)	693.2	13	2267.0	13	28.7	-24	135.9	-19	4.1	6.1	20.8	25	1.38
Menesco (11)	146.1	12	425.3	16	0.5	-71	3.9	86	0.3	1.2	5.6	17	0.36
Michinger (11)	609.2	11	1504.1	12	17.9	16	23.9	NM	2.9	2.8	6.2	13	0.73
Mills Stores (11)	357.3	0	1282.6	1	-4.3	NM	13.7	352	NM	NM	NM	13	1.54
Home Depot (11)	2453.8	32	6452.4	35	134.5	32	338.4	36	5.5	5.5	16.4	41	0.94
Home Shopping Network (4)	260.5	0	750.1	-6	1.1	-84	-13.9	NM	0.4	2.7	-4.4	NA	NA
House of Fabrics (11)	129.2	2	415.0	2	-4.0	NM	-2.5	NM	NM	NM	-1.0	NM	-0.13
Kmesway (11)	172.4	-16	579.1	-10	-9.7	NM	-60.9	NM	NM	NM	NM	NM	-4.38
Kmart (11)	10301.0**	12	31035.0	10	102.0	-39	687.0	-10	1.0	1.8	11.6	14	1.77
Kohl's (11)	257.4	18	890.1	41	6.9	NM	36.9	NM	2.7	NM	21.1	34	1.40
Knds' End (11)	151.1	9	586.8	7	3.6	42	29.0	7	2.4	1.8	23.5	22	1.92
Knited (11)	1689.1**	13	5635.6	14	68.2	-15	356.4	7	4.0	5.4	18.8	19	1.20
Kwe's (11)	1241.7	17	3144.1	18	45.0	51	86.7	748	3.6	2.8	13.0	33	1.44
Ky Department Stores (11)	2586.0**	4	8613.0	5	117.0	-70	532.0	-28	4.5	15.8	9.9	34	1.31
Kelville	2355.4	-1	6925.8	0	41.5	-25	94.3	-21	1.8	2.3	5.7	39	1.10
Kercantile Stores (11)	615.4**	2	2082.7	5	-1.3	NM	65.0	19	NM	0.9	6.5	15	2.26
Kerry-Go-Round Enterprises (11)	214.4	18	695.0	15	-2.5	NM	13.5	23	NM	3.5	10.2	19	0.45
Keyer (Fred) (11)	674.7	5	2284.8	5	17.0	14	56.8	22	2.5	2.3	13.5	15	2.32
Kiman Marcus Group (5)	464.2**	12	1537.9	12	2.6	NM	31.3	130	0.6	NM	95.5	21	0.78
Kirdstrom (11)	1017.6	7	2782.4	7	42.7	2	103.9	0	4.2	4.4	11.7	22	1.56
Kida Holdings (11)	170.8	3	478.7	3	1.1	-41	0.6	-83	0.6	1.1	5.5	28	0.12
Kless Cashways (1)	716.9	3	1908.5	3	8.1	28	-6.0	NM	1.1	0.9	-1.9	NM	0.06
Kney (J. C.) (11)	4238.0	5	14842.0	8	112.0	40	659.0	160	2.6	2.0	17.4	14	3.42
Kp Boys-Manny, Moe & Jack (11)	329.1	6	900.3	9	19.1	15	44.9	21	5.8	5.4	11.0	24	0.97
Krie Stores (11)	362.3	2	1122.3	5	-32.4	NM	-19.8	NM	NM	0.4	-3.9	NM	-0.51
Kce (4)	1748.4**	1	5193.5	4	32.8	11	67.2	-15	1.9	1.7	12.7	8	2.41
K/C Network (11)	262.4**	19	877.5	19	13.3	53	51.0	69	5.1	3.9	12.8	38	1.46
Kse's Stores (11)	289.7	-3	1021.9	1	-11.6	NM	-46.6	NM	NM	NM	-79.5	NM	-3.06
Kss Stores (11)	276.0	9	836.8	11	8.2	-16	27.9	5	3.0	3.8	15.0	11	1.26
Kars, Roebuck	12719.1	-1	36173.8	-3	453.9	NM	1864.5	NM	3.6	NM	-0.9	NM	-0.36
Kervice Merchandise	704.1	1	2180.1	2	-4.3	NM	-6.7	NM	NM	NM	43.6	12	0.81
KopKo Stores (10)	355.3	0	1258.7	-1	2.1	-52	25.9	-29	0.6	1.2	12.2	8	1.35
Kegel	550.3	20	1566.4	16	-14.0	NM	-7.1	NM	NM	0.4	6.1	74	0.55
Kawbridge & Clothier (11)	225.0**	5	754.2	0	-1.4	NM	16.6	8	NM	NM	6.5	14	1.50
K (11)	841.1	12	2624.3	18	26.0	37	78.0	62	3.1	2.5	26.7	20	1.55
Krs 'R' Us (11)	1317.0	5	6005.3	14	35.5	9	410.7	27	2.7	2.6	16.0	26	1.50
K. Shoe (11)	639.7	0	1968.3	-1	-22.7	NM	-31.5	NM	NM	NM	-5.2	NM	-0.51
Knture Stores (11)	403.1**	4	1342.2	5	4.4	-18	38.6	-2	1.1	1.4	21.2	9	2.53
Kting Office Products (6)	129.8	19	364.0	27	6.7	128	18.7	93	5.2	2.7	18.6	40	1.02
Kiban (11)	967.2	12	2739.1	17	13.7	7	32.2	9	1.4	1.5	9.5	10	1.30
Kil-Mart Stores (11)	16236.5	25	47279.1	23	495.9	18	1696.1	20	3.1	3.2	22.5	28	0.93
Kolworth (11)	2288.0**	3	7558.0	1	2.0	-94	168.0	NM	0.1	1.5	11.9	13	1.78
ELECTRICAL & ELECTRONICS													
INDUSTRY COMPOSITE	32286.4	12	94017.5	11	2327.0	67	6232.6	81	7.2	4.8	15.7	18	2.42
ELECTRICAL PRODUCTS													
DUP COMPOSITE	5752.9	1	17128.4	1	239.7	-10	692.3	-7	4.2	4.7	11.0	21	1.23
Cooper Industries	1592.4**	9	4675.3	4	98.9	10	264.9	0	6.2	6.2	10.7	19	2.70
Cobbell	211.5	5	620.7	6	23.4	3	72.4	2	11.1	11.2	16.9	18	3.03
CogneTek (6)	379.6	13	1184.0	20	1.4	-79	13.4	-41	0.4	2.0	13.3	16	0.87
Ctional Service Industries (4)	483.5	13	1370.5	11	21.4	2	56.5	0	4.4	4.9	10.7	16	1.52
Cychem (6)	355.4	2	1040.6	3	6.4	70	7.3	NM	1.8	1.1	1.5	NM	0.25
Ciance Electric	402.0	1	1203.0	4	10.0	-33	31.0	-6	2.5	3.8	11.3	20	0.84
Cimas & Betts	268.5	1	800.4	1	13.2	-22	38.7	21	4.9	6.3	12.1	19	3.06
Cstinghouse Electric	2060.0	-9	6234.0	-7	65.0	-29	208.0	-25	3.2	4.0	12.8	20	0.66
ELECTRONICS													
DUP COMPOSITE	14717.1	13	42788.0	12	866.4	54	2456.8	152	5.9	4.3	13.8	21	2.78
Systems	508.6	-9	1573.5	2	32.6	14	90.0	13	6.4	5.1	16.8	13	3.53
General Instrument	369.1	30	984.1	27	27.4	NM	50.8	NM	7.4	NM	18.1	61	0.95
Hughes Electronics	3219.7	13	9698.7	11	224.0	56	645.3	NM	7.0	5.0	12.3	18	2.20
Kris (6)	769.1	6	2371.8	4	24.7	19	89.7	18	3.2	2.9	10.0	15	2.91
Ion Industries (5)	1446.5	0	4112.9	-5	45.7	2	139.5	5	3.2	3.1	12.8	15	4.41
Kal (9)	836.6	13	2660.1	20	46.7	30	144.4	43	5.6	4.9	15.2	13	2.28
Korola	4408.0	30	11970.0	25	254.0	100	682.0	73	5.8	3.7	14.3	33	3.09
Kytheon	2223.0	0	6684.8	0	170.8	9	507.6	9	7.7	7.1	16.7	12	5.00

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-22	1 MONTH EARN- ING P SH
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
SCI Systems (6)	426.6	22	1323.5	42	7.8	85	23.7	170	1.8	1.2	10.9	14	1.1
Sensormatic Electronics (6)	143.3	20	388.8	36	14.8	36	44.4	125	10.3	9.1	11.8	29	1.3
Varian Associates (3)	366.5	2	1019.7	4	18.0	38	39.3	27	4.9	3.7	11.2	20	2.1
(c) INSTRUMENTS GROUP COMPOSITE	4126.4	2	12214.0	4	162.2	-16	323.5	-35	3.9	4.8	9.0	24	1.1
Beckman Instruments	215.6	-2	639.1	-3	11.5	1	33.4	6	5.3	5.2	13.2	16	1.1
Honeywell	1452.3	-6	4342.9	-4	80.9	-53	209.6	-43	5.6	11.1	14.0	19	1.1
Imo Industries	202.1	-1	614.1	-9	-6.2	NM	-6.9	NM	NM	NM	-2.9	NM	-0.1
Johnson Controls (3)	1631.6	12	4670.4	19	45.6	9	103.3	9	2.8	2.9	12.6	17	3.1
Millipore	194.5	-2	585.8	0	10.6	-18	24.2	-27	5.5	6.5	6.8	32	1.1
Tektronix (7)	290.1	-5	954.3	-6	9.7	58	-63.3	NM	3.4	2.0	-12.4	NM	-1.1
Teradyne	140.3	7	407.4	2	10.1	76	23.1	33	7.2	4.4	7.5	28	0.1
(d) SEMICONDUCTORS GROUP COMPOSITE	7689.9	29	21887.2	27	1058.7	189	2760.1	126	13.8	6.1	22.8	15	3.1
Advanced Micro Devices	418.4	17	1234.9	11	61.3	25	187.1	7	14.7	13.8	18.9	8	2.1
AMP	857.4	1	2578.1	3	77.4	-1	225.7	3	9.0	9.2	14.4	22	2.1
Amphenol	150.5	34	452.2	31	6.9	118	17.4	67	4.6	2.8	9.8	35	0.1
Analog Devices (2)	173.1	20	487.3	16	12.2	145	30.4	286	7.0	3.4	9.0	30	0.1
Intel	2239.8	57	6393.0	60	584.4	143	1700.9	167	26.1	16.9	33.3	13	4.1
LSI Logic	183.8	19	529.8	16	14.4	NM	38.1	NM	7.8	NM	16.0	16	0.1
Micron Technology (4)	306.0	126	697.3	77	62.8	NM	101.4	NM	20.5	2.1	16.3	18	2.1
Molex (6)	233.2	8	674.8	10	21.4	17	-44.0	NM	9.2	8.5	10.0	28	1.1
National Semiconductor (7)	558.9	18	1608.3	18	52.2	138	125.3	96	9.3	4.6	15.7	14	1.1
Soletron (4)	270.5	140	699.8	132	11.2	175	26.5	147	4.1	3.6	11.7	31	1.1
Texas Instruments	2161.0	14	6149.0	13	147.0	153	343.0	102	6.8	3.1	20.2	15	4.1
VLSI Technology	137.3	31	382.6	22	7.5	NM	8.3	NM	5.5	NM	-8.6	NM	-0.1

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ON THE STREET

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS			RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %				
FOOD														
INDUSTRY COMPOSITE	75010.1	4	224563.8	4	1749.1	36	4680.6	3	2.3	1.8	20.0	20	1.40	
FOOD DISTRIBUTION														
GROUP COMPOSITE	10656.3	17	34110.4	17	115.9	9	377.6	5	1.1	1.2	13.1	19	1.45	
Artemis	2936.0	0	9945.6	2	20.3	-11	84.5	-4	0.7	0.8	10.4	10	3.14	
Chickfood Holdings (8)	293.4	19	903.4	8	4.4	30	13.4	11	1.5	1.4	19.6	19	0.80	
Markoff-Sexton (8)	366.4	-1	1089.8	-4	1.1	NM	-21.0	NM	0.3	NM	-10.9	NM	-1.58	
Super Food Services (4)	355.3**	-2	882.9	-22	3.6	64	7.2	NM	1.0	0.6	7.4	13	0.85	
Super Rite (10)	291.6	-2	932.2	2	2.1	39	-0.4	NM	0.7	0.5	2.4	NM	0.06	
Super Valu (10)	3703.8	50	12433.3	48	36.3	13	137.4	10	1.0	1.3	14.8	14	2.43	
Wesco (6)	2709.9	12	7923.2	14	48.1	7	156.7	19	1.8	1.9	18.0	26	1.10	
FOOD PROCESSING														
GROUP COMPOSITE	31137.8	3	92015.3	3	1268.6	44	3739.2	1	4.1	2.9	21.2	20	1.81	
American Maize-Products	151.8	4	402.7	-4	5.4	4	-3.2	NM	3.6	3.6	-1.9	NM	-0.47	
Arden	1686.3	-9	4908.6	-8	0.2	NM	60.3	NM	0.0	NM	8.9	27	0.63	
Campbell Soup (5)	1469.7	3	4890.7	4	122.0	12	100.6	-72	8.3	7.6	15.1	40	1.02	
ConAgra (7)	5687.4	3	16126.1	1	67.6	-3	259.5	-1	1.2	1.3	17.6	17	1.58	
McC International	1664.1	4	4990.1	4	122.0	6	329.3	5	7.3	7.2	26.2	16	2.90	
Perfection-Burns Foods (6)	210.1	-3	633.2	-3	1.2	-11	-26.1	NM	0.6	0.6	-31.7	NM	-2.78	
Puritan Foods (7)	559.7	3	1718.4	-2	10.6	-31	46.4	4	1.9	2.8	13.2	16	1.61	
Quaker Food	1005.8	5	2635.9	1	5.1	-76	98.0	11	0.5	2.2	6.9	25	1.25	
Weyer's Grand Ice Cream	140.1	16	365.9	16	6.6	7	15.6	27	4.7	5.1	15.0	24	1.19	
Wm. W. W. Industries (6)	217.4	3	748.9	8	4.7	-28	29.9	3	2.1	3.1	13.4	18	1.01	
General Mills (7)	2089.8	3	6107.9	4	165.6	4	374.0	-5	7.9	7.9	41.7	20	3.17	
Herbert Products (9)	316.7**	-9	924.0	-9	33.6	3	103.1	-5	10.6	9.3	39.7	16	1.78	

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Kemper SECURITIES

WHERE YOU LIVE

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-22	1 MONTH EARN. GROWTH PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
Heinz (H. J.) (8)	1583.3	1	5383.7	7	152.2	6	384.2	-5	9.6	9.2	23.2	19	2
Hershey Foods	935.7	13	2451.9	9	74.0	11	205.1	28	7.9	8.1	19.9	17	3
Hormel Foods (2)	677.8	1	2036.6	3	19.1	19	60.0	13	2.8	2.4	15.1	16	1
IBP	3054.2	6	8842.4	6	22.2	67	55.1	22	0.7	0.5	12.4	16	1
International Multifoods (10)	521.5	-4	1614.4	-2	-27.2	NM	-10.3	NM	NM	1.7	1.8	88	0
Interstate Bakeries (7)	269.7	-1	889.7	0	7.0	-22	19.3	-16	2.6	3.3	14.3	11	1
Kellogg	1669.2	0	4729.2	-1	209.3	5	531.2	-4	12.5	12.0	38.7	19	2
McCormick (1)	394.9	10	1095.8	8	24.9	4	60.8	1	6.3	6.6	20.4	21	1
Pet (6)	354.9	4	1046.9	-14	20.8	5	75.8	13	5.9	5.8	33.1	15	1
Pioneer Hi-Bred International (4)	187.5	-8	1275.1	6	-37.2	NM	176.3	-5	NM	NM	15.7	22	1
Quaker Oats (6)	1534.3	3	4438.0	2	91.4	52	259.5	18	6.0	4.0	57.0	16	4
Sara Lee (6)	3796.0	6	10953.0	8	155.0	9	497.0	10	4.1	4.0	20.0	19	1
Seaboard	250.2	3	791.9	12	1.6	-70	14.6	-21	0.7	2.3	9.0	10	18
Smithfield Foods (8)	299.2	31	947.9	22	-0.4	NM	0.7	-96	NM	0.7	0.3	NM	0
Thorn Apple Valley (7)	231.6	5	558.2	5	3.9	-25	7.8	-44	1.7	2.4	14.5	8	2
WLR Foods (6)	179.0	27	508.4	26	7.2	72	14.6	117	4.0	3.0	9.4	14	1
(c) FOOD RETAILING GROUP COMPOSITE	33216.0	2	98438.0	2	364.6	24	563.8	15	1.1	0.9	19.4	21	0
Albertson's (11)	2768.2	6	8175.4	15	75.9	15	255.7	42	2.7	2.5	26.4	20	1
American Stores (11)	4693.1	0	14211.4	-4	58.5	14	193.8	51	1.2	1.1	14.6	12	3
Bruno's (6)	640.9	0	2124.6	7	9.2	-27	26.9	-27	1.4	2.0	10.8	17	0
Casey's General Stores (8)	195.0*	9	517.8	11	4.8	16	9.5	17	2.4	2.3	12.4	18	1
Dairy Mart Convenience Stores (11)	158.8*	5	443.9	6	2.4	31	-3.4	NM	1.5	1.2	-7.6	NM	-0
Delchamps (6)	266.6	4	795.5	8	3.2	7	11.1	35	1.2	1.2	11.6	11	2
Eagle Food Centers (11)	265.4	-2	808.5	0	0.6	-57	5.5	-13	0.2	0.5	10.7	8	0
Food Lion	1807.4	7	5214.1	6	24.7	-49	77.3	-49	1.4	2.9	10.4	27	0
Foodarama Supermarkets (2)	167.7	-5	509.4	-3	-3.7	NM	-3.3	NM	NM	0.2	-13.0	NM	-3
Giant Food (10)	795.8	2	2721.7	0	14.6	22	74.0	33	1.8	1.5	12.8	16	1
Great Atlantic & Pacific Tea (10)	2399.4	1	8054.2	-5	6.0	-22	-17.1	NM	0.2	0.3	-1.6	NM	-0
Hannaford Brothers	530.1**	1	1538.6	1	15.9	11	40.1	13	3.0	2.7	14.4	17	1
Kroger	6478.6	2	16981.9	3	25.2	267	84.3	160	0.4	0.1	NM	12	1
National Convenience Stores (6)	234.3	0	663.1	-3	4.7	-44	4.9	26	2.0	3.6	8.4	21	0
Penn Traffic (11)	781.0**	12	2291.0	10	0.6	NM	5.5	252	0.1	NM	29.0	58	0
Safeway	3558.9	3	10512.9	2	42.1	111	76.4	0	1.2	0.6	35.2	25	0
Seaway Food Town (4)	136.3	-3	426.5	2	-0.5	NM	0.8	-48	NM	0.3	3.0	24	0
Smith's Food & Drug Centers	686.7	5	2080.5	6	7.9	-43	35.9	-11	1.2	2.1	9.1	13	1
Southland	1796.5***	-10	5181.2	-10	21.8	NM	25.2	NM	1.2	NM	NM	NM	-0
Stop & Shop (11)	829.2	7	2700.8	6	13.0	-6	47.2	25	1.6	1.8	37.2	18	1
Supermarkets General Holding (11)	1003.1	-7	3208.1	-7	-15.1	NM	-617.0	NM	NM	NM	NM	NA	0
Village Super Market (5)	203.8	4	548.3	-1	-0.1	NM	1.3	266	NM	0.5	2.7	17	0
Weis Markets	354.9	11	1069.3	11	17.0	-5	53.5	-2	4.8	5.6	10.1	17	1
Winn-Dixie Stores (6)	2464.4	3	7659.2	6	36.0	8	175.9	4	1.5	1.4	24.3	18	3
11 FUEL	96210.5	-7	288867.0	-1	3891.7	12	11368.0	34	4.0	3.4	11.6	19	2
(a) COAL GROUP COMPOSITE	169.0	0	511.5	3	5.9	1	11.8	-30	3.5	3.5	136.2	9	2
Pittston Minerals Group	169.0**	0	511.5	3	5.9	1	11.8	-30	3.5	3.5	136.2	9	2
(b) OIL & GAS GROUP COMPOSITE	92971.3	-7	279345.4	-2	3668.8	13	10798.5	37	3.9	3.2	11.6	18	2
Amerada Hess	1246.0**	-12	4227.5	-3	-22.4	NM	-164.0	NM	NM	0.6	-4.5	NM	-1
Amoco	6446.0	0	19165.0	2	520.0	5	1236.0	309	8.1	7.7	13.6	16	3
Ashland Oil (3)	2487.5**	-7	7161.7	-1	65.3	NM	117.5	NM	2.6	NM	12.0	16	2
Atlantic Richfield	4553.0**	-6	13730.0	0	68.0	-80	599.0	-27	1.5	6.9	14.2	18	5
Burlington Resources	309.5	9	938.1	17	24.3	-25	203.1	118	7.9	11.5	11.6	20	2
Chevron	9233.0**	-10	28169.0	-3	420.0	-10	971.0	-13	4.5	4.6	NA	15	6
Coastal	2307.9	11	7586.9	1	-11.4	NM	42.4	53	NM	0.8	-5.3	NM	-1
Diamond Shamrock	650.5	-7	1928.2	0	9.3	-47	30.8	2	1.4	2.5	4.8	29	0
Enron Oil & Gas	141.1	26	418.4	35	35.8	74	99.5	73	25.4	18.4	16.0	25	1
Exxon	24995.0**	-8	74548.9	-2	1360.0	19	3780.0	11	5.4	4.2	14.9	16	4
Holly (5)	167.1	7	478.7	23	10.6	11	17.4	636	6.4	6.1	54.7	12	2
Kerr-McGee	819.2	-4	2448.5	-3	18.8	-35	76.9	4	2.3	3.4	-1.7	NM	-0
Mitchell Energy & Development (11)†	243.7	13	725.4	10	10.8	16	39.9	189	4.4	4.3	7.4	30	0
Mobil	15819.0**	-3	47016.0	1	666.0	61	1735.0	118	4.2	2.5	12.9	15	5
Murphy Oil	420.0**	1	1248.8	1	20.2	37	66.7	62	4.8	3.5	7.2	23	1
Occidental Petroleum	1916.0	-10	6096.0	-1	-101.0	NM	57.0	-49	NM	4.6	1.3	NM	0
Oryx Energy	264.0**	-34	825.0	-25	-45.0	NM	-48.0	NM	NM	8.3	-3.4	NM	-0
Phillips Petroleum	3192.0**	2	9555.0	6	41.0	-61	225.0	79	1.3	3.4	13.4	22	1
Sun	2384.0***	-20	7127.0	-11	114.0	NM	219.0	NM	4.8	NM	13.2	13	2
Texaco	8479.0**	-13	25441.0	-6	317.0	-2	910.0	31	3.7	3.3	12.4	16	4
Tosco	1043.7	102	2416.1	82	27.9	181	64.9	50	2.7	1.9	14.3	19	1
Ultrimar	608.9	-8	1850.4	-5	21.3	NM	61.4	121	3.5	0.1	14.5	13	1
Union Texas Petroleum Holdings	170.0	0	492.6	-1	-13.0	NM	25.4	-73	NM	12.5	13.8	46	0

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE/EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
Local	1769.0**	-21	5771.0	-16	70.0	536	299.0	222	4.0	0.5	14.0	19	1.52
EX-Marathon Group	2983.0	-12	9040.0	-5	30.0	25	82.0	-64	1.0	0.7	-1.3	NM	-0.15
Alero Energy	323.4	-4	940.2	1	11.3	-60	51.6	-32	3.5	8.4	6.9	18	1.36
PETROLEUM SERVICES													
GROUP COMPOSITE	3070.2	7	9010.2	7	217.0	-1	557.7	-3	7.1	7.7	12.4	27	1.43
Arco	228.8	19	611.7	11	10.4	62	22.1	38	4.6	3.3	9.6	25	0.32
Exxon Industries (2)	1064.8	11	3055.7	10	34.8	19	57.0	7	3.3	3.1	8.2	39	0.55
Hummerberger	1642.4	3	4959.3	6	162.7	-6	458.8	-10	9.9	10.8	14.5	25	2.53
Indevco (9)	134.2	12	383.5	11	9.1	-20	19.8	NM	6.8	9.5	4.9	46	0.51
HEALTH CARE													
INDUSTRY COMPOSITE	49237.2	5	146830.5	6	4134.8	13	13221.2	7	8.4	7.8	24.5	17	2.09
PHARMACEUTICALS													
GROUP COMPOSITE	12263.2	11	37260.3	11	124.0	-15	596.1	237	1.0	1.3	13.9	19	1.44
Abbott Laboratories (5)	136.7	11	410.7	11	-6.0	NM	3.1	-75	NM	3.3	5.5	43	0.43
Amgen (4)	1756.4**	31	5223.3	34	-13.1	NM	16.7	-64	NM	1.1	6.6	19	0.79
Baxter (11)	131.3	21	429.0	11	1.8	32	9.6	31	1.4	1.3	11.8	19	0.67
Boehringer-Ingelheim (11)	844.8	16	2452.4	19	2.8	-15	9.3	-9	0.3	0.5	5.8	14	0.87
Cardinal Distribution (9)	597.4	24	1646.3	14	9.2	3	27.6	17	1.5	1.9	10.5	25	1.78
Endo Pharmaceuticals (10)	185.1	0	575.3	0	0.2	NM	1.2	NM	0.1	NM	-1.9	NM	-0.07
Eli Lilly (11)	981.2	7	3074.6	6	-3.2	NM	30.7	51	NM	NM	NM	NA	NA
Eli Lilly (11)	221.9	3	696.7	4	3.1	4	7.2	-20	1.4	1.4	9.8	15	0.44
Glaxo (11)	609.3	-1	1884.0	1	13.0	-4	40.4	-6	2.1	2.2	10.5	14	2.42
Kendall (9)	3028.3**	6	8949.5	6	29.7	16	118.8	326	1.0	0.9	29.2	19	2.84
Pfizer (2)	173.6	3	522.3	3	1.9	-10	4.1	-34	1.1	1.2	8.4	11	0.52
Schering-Plough (7)	521.0	10	1804.9	9	2.7	NM	19.0	NM	0.5	NM	4.0	32	0.44
Upjohn (10)	1039.1	6	3211.0	8	23.6	-13	103.5	-1	2.3	2.8	12.2	11	1.48
Wyer (4)	2037.0	11	6380.2	11	58.3	13	205.0	11	2.9	2.8	18.0	21	1.98
DRUGS & RESEARCH													
GROUP COMPOSITE	17515.4	1	51722.6	3	2616.0	1	8275.6	-2	14.9	14.9	29.0	17	2.61
Amgen	216.9	3	627.6	3	28.3	3	74.0	9	13.0	13.0	20.5	14	1.60
American Home Products	2168.1	3	6188.5	5	397.6	4	1086.6	38	18.3	18.1	40.5	13	4.66
Amgen	354.9	17	1008.2	28	102.7	16	283.5	27	28.9	29.3	38.1	16	2.88
Bristol-Myers Squibb	2862.0	-3	8420.0	1	608.0	6	1703.0	8	21.2	19.4	26.8	18	3.22
Chiron (9)	150.3**	-11	485.2	-3	1.4	-86	15.1	-56	0.9	5.9	7.3	46	0.62
Eli Lilly (11)	155.7**	24	457.3	24	15.5	102	40.3	175	10.0	6.1	4.3	NM	0.39
Eli Lilly (11)	1530.6	4	4651.6	3	294.4	NM	1014.7	97	19.2	NM	24.8	12	4.52
Merrell Dow	709.0	-15	2076.0	-18	143.0	-19	246.0	-54	20.2	21.0	21.1	14	1.41
Rockwell	2544.1	3	7497.4	6	705.7	11	1492.0	-19	27.7	25.8	42.6	18	1.84
Schering-Plough	1872.5	2	5488.5	4	-214.2	NM	368.6	-55	NM	16.3	15.4	32	1.98
Schering-Plough	960.1	-9	2884.5	-1	75.0	-19	293.0	15	7.8	8.8	32.7	14	3.27
Schering-Plough	1061.9	4	3274.9	7	199.4	14	636.1	15	18.8	17.1	54.1	17	4.09
Schering-Plough (5)	541.0	6	1630.8	5	133.4	44	293.3	-14	24.7	18.1	25.6	14	1.29
Schering-Plough	909.9	1	2772.3	4	-30.1	NM	247.6	-37	NM	14.6	18.4	15	2.22
Schering-Plough	1478.5	3	4259.9	3	155.9	-5	481.9	-5	10.5	11.4	35.9	15	4.59
HEALTH-CARE SERVICES													
GROUP COMPOSITE	9066.0	9	26834.2	8	341.1	NM	1276.6	108	3.8	NM	15.1	17	1.13
American Medical Holdings (4)	565.0	0	1696.6	0	16.4	153	56.4	-48	2.9	1.2	9.5	7	2.36
Verly Enterprises	732.3	9	2137.9	12	18.6	36	43.5	34	2.5	2.0	-1.1	NM	-0.08
Remark International	455.6	23	1322.9	23	21.2	11	55.5	31	4.7	5.1	10.9	30	0.55
Continental Medical Systems (6)	249.8	19	722.7	24	7.6	-17	11.2	-49	3.0	4.3	7.9	17	0.55
Foundation Health (6)	481.3	38	1315.8	25	19.2	31	56.8	31	4.0	4.2	22.9	11	2.23
A-Hospital Corp. of America	1253.0	-1	3852.2	-1	73.1	NM	284.0	NM	5.8	NM	25.6	12	2.48
Health Care & Retirement	143.2	13	414.6	13	8.5	21	24.9	29	5.9	5.5	10.7	19	0.98
Healthtrust (4)	608.2	7	1802.8	6	26.5	22	101.9	43	4.4	3.8	20.6	15	1.62
Healthtrust (7)	324.5	7	955.1	8	8.0	-9	28.9	68	2.5	2.9	19.7	12	0.31
Healthtrust (7)	782.0**	7	2346.0	9	23.0	NM	60.0	NM	2.9	NM	11.5	33	0.42
Healthtrust (7)	284.6	16	795.2	12	19.8	24	48.9	-18	6.9	6.5	17.4	19	1.15
National Health Laboratories	194.8	6	591.6	9	38.2	27	105.0	15	19.6	16.4	32.0	25	0.63
National Medical Enterprises (7)	891.8	-5	2781.5	-4	-100.9	NM	-44.0	NM	NM	5.4	0.5	NM	0.06
NovoCare (6)	155.0	32	447.2	37	12.4	3	34.5	1	8.0	10.3	16.6	14	0.94
Nova HealthCorp (4)	176.7**	29	489.6	27	3.2	NM	9.7	NM	1.8	NM	9.0	29	0.52
Nova Health (6)	129.3	6	386.0	5	4.9	28	14.6	35	3.8	3.1	17.2	12	0.59
NovoCare (6)	674.2**	20	1965.1	22	78.3	63	208.5	49	11.6	8.6	40.1	18	2.47
NovoCare (6)	149.9	40	422.1	37	6.9	3	20.0	7	4.6	6.3	24.4	12	2.44
NovoCare (6)	186.3**	7	569.1	3	5.2	52	20.2	19	2.8	2.0	10.7	11	1.66
NovoCare (6)	628.6**	7	1820.1	7	51.0	-2	136.1	-5	8.1	8.8	15.4	15	1.69
PHARMACEUTICALS													
GROUP COMPOSITE	10392.7	3	31013.4	5	1053.7	2	3072.9	-1	10.1	10.3	23.7	18	1.90
Boehringer-Ingelheim	2060.4	5	6179.8	7	316.2	13	1007.8	13	15.3	14.2	38.3	17	1.63
Boehringer-Ingelheim (C. R.)	243.5	-3	723.8	-1	-25.2	NM	22.0	-59	NM	7.6	11.1	30	0.82
Boehringer-Ingelheim	498.8	8	1385.8	8	55.8	12	135.6	13	11.2	10.8	20.6	16	3.11
Boehringer-Ingelheim	2228.0	5	6484.0	5	135.0	-9	324.0	-16	6.1	7.0	13.0	13	1.80

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE/EARNINGS RATIO 10-22	2 MONTH EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
Dentsply International	133.5	6	404.8	12	11.0	31	14.4	-36	8.3	6.7	18.3	37	32
Imcera Group (6)	444.9	7	1383.2	5	35.3	28	-134.6	NM	7.9	6.6	-11.8	NM	-88
Johnson & Johnson	3506.0	1	10607.0	3	454.0	10	1452.0	10	13.0	11.9	30.8	16	56
Kendall International	209.6	5	621.1	7	14.6	NM	38.3	NM	7.0	NM	20.0	21	37
Medtronic (8)	331.3	0	997.8	4	52.5	15	158.3	20	15.8	13.8	25.9	20	77
Owens & Minor	362.0	21	1021.0	17	4.8	21	12.9	21	1.3	1.3	14.0	26	1
Stryker	136.9	17	412.1	19	14.0	27	42.4	28	10.2	9.4	21.9	22	1
U. S. Surgical	237.7	-19	792.8	-9	-14.3	NM	-0.3	NM	NM	12.4	6.4	39	3
13 HOUSING & REAL ESTATE													
INDUSTRY COMPOSITE	8444.9	8	23308.1	9	434.3	31	1592.3	143	5.1	4.3	19.7	22	50
(a) BUILDING MATERIALS													
GROUP COMPOSITE	6051.2	4	16850.5	4	273.4	10	1239.2	179	4.5	4.3	23.2	23	17
Lafarge	510.6	1	1096.9	-3	54.3	24	3.7	NM	10.6	8.6	-2.2	NM	-2
National Gypsum	137.1	11	374.8	7	4.7	NM	-31.9	NM	3.4	NM	-24.3	NA	4
Owens-Corning Fiberglas	785.0	0	2190.0	2	48.0	50	72.0	20	6.1	4.1	NM	23	9
Ply Gem Industries	209.0	18	539.7	15	5.3	20	6.7	48	2.5	2.5	7.1	22	7
PPG Industries	1405.4	-2	4375.7	-1	24.8	-62	241.1	-4	1.8	4.6	12.5	23	9
RPM (7)	183.8	2	489.8	6	13.9	11	30.6	14	7.6	7.0	17.3	21	9
Sherwin-Williams	838.8	9	2281.3	7	64.4	15	138.8	15	7.7	7.2	16.8	20	20
Standex International (6)	127.3	0	370.4	2	6.3	15	18.2	9	5.0	4.3	20.4	14	54
Texas Industries (7)	170.5**	10	474.1	8	1.4	NM	3.2	NM	0.8	NM	1.2	76	37
TJ International	152.7	35	406.5	35	5.8	69	9.5	60	3.8	3.0	6.9	44	4
USG	514.0	8	1420.0	6	-25.0	NM	594.0	NM	NM	NM	NM	NA	4
Valspar (2)	196.9	4	513.1	3	14.4	26	28.0	16	7.3	6.0	20.6	23	7
Vulcan Materials	331.5	6	851.5	6	36.6	2	67.7	-4	11.0	11.4	12.9	20	9
York International	488.7	3	1466.7	2	18.5	2	57.8	10	3.8	3.8	16.0	17	7
(b) CONSTRUCTION & REAL ESTATE													
GROUP COMPOSITE	2393.7	22	6457.7	26	161.0	92	353.1	67	6.7	4.3	12.9	20	12
Capstead Mortgage	161.9	20	480.3	33	23.6	79	69.8	89	14.6	9.8	17.6	11	56
Centex (9)	813.5**	26	2162.7	25	22.8	26	55.1	47	2.8	2.8	12.2	19	1
Clayton Homes (6)	136.0	24	396.3	28	14.8	33	47.0	33	10.9	10.2	16.5	22	82
Kaufman & Broad Home (1)	319.9	10	864.8	22	11.5	94	24.9	88	3.6	2.0	9.2	18	1
Lennar (1)	167.1**	34	426.5	40	12.0	281	31.7	68	7.2	2.5	9.4	17	35
Pulte	431.7**	21	1152.2	24	19.7	-14	53.2	10	4.6	6.4	14.9	14	78
Skyline (7)	136.2	18	384.6	31	3.0	7	7.6	33	2.2	2.4	6.4	18	94
U. S. Home	227.5**	25	590.2	18	53.4	731	63.7	325	23.5	3.5	21.9	NA	44
14 LEISURE TIME INDUSTRIES													
INDUSTRY COMPOSITE	20492.3	7	57708.0	6	1049.3	-10	2819.4	-3	5.1	6.1	13.2	26	12
(a) EATING PLACES													
GROUP COMPOSITE	5628.6	5	16509.2	6	401.9	7	1055.9	14	7.1	7.0	16.2	24	19
Bob Evans Farms (8)	178.4	12	508.5	15	11.8	13	33.5	9	6.6	6.5	13.9	18	36
Brinker International (6)	192.4	27	542.2	28	14.4	33	41.9	37	7.5	7.2	15.0	38	35
Cracker Barrel Old Country Store (5)	149.9	25	394.6	28	17.8	31	35.5	34	11.9	11.4	13.3	33	76
Flagstar	1075.3	8	2955.1	6	-6.7	NM	-48.6	NM	NM	0.9	-26.4	NM	-25
Marriott International	1532.0	3	4926.0	4	29.0	45	103.0	23	1.9	1.3	NA	21	25
McDonald's	1944.3	2	5476.2	3	310.9	8	818.0	12	16.0	15.1	18.5	19	30
Morrison Restaurants (7)	282.2**	14	852.0	8	8.1	16	28.9	15	2.9	2.8	18.3	23	30
Shoney's (2)	274.1**	7	854.6	5	16.6	8	43.8	15	6.0	6.0	NM	NM	-47
(b) ENTERTAINMENT													
GROUP COMPOSITE	2103.9	43	5166.8	18	198.8	29	282.3	-30	9.4	10.4	8.6	35	12
AMC Entertainment (9)	174.8	73	413.7	31	8.7	NM	10.4	85	5.0	NM	63.4	17	75
Blockbuster Entertainment	577.5	86	1503.3	71	69.7	64	162.4	61	12.1	13.7	18.9	29	49
Paramount Communications (8)	1351.7	27	3249.8	2	120.4	5	109.5	-63	8.9	10.7	5.5	42	85
(c) HOTEL & MOTEL													
GROUP COMPOSITE	3356.0	5	9996.1	6	152.9	11	393.4	16	4.6	4.3	13.6	27	17
Azlar	144.0	2	397.1	2	5.3	-37	10.8	-30	3.7	6.0	3.2	25	15
Caesars World (5)	262.0	7	750.9	7	25.7	50	68.2	37	9.8	7.0	18.7	14	10
Circus Circus Enterprises (11)	228.5	3	629.4	2	37.4	6	90.1	7	16.4	15.9	22.7	27	14
Hilton Hotels	346.7**	7	1023.5	14	20.5	-10	70.4	-9	5.9	7.1	9.4	23	32
Host Marriott	2028.0	4	6263.0	6	27.0	4	82.0	24	1.3	1.3	12.9	9	78
Promus	346.7	10	932.2	9	37.1	32	71.8	49	10.7	8.9	16.0	70	10
(d) OTHER LEISURE													
GROUP COMPOSITE	9403.8	2	26035.9	3	295.7	-41	1087.7	-13	3.1	5.4	13.4	25	16
American Greetings (10)	385.7	5	1221.0	6	10.9	23	73.9	21	2.8	2.4	12.0	18	52
Brunswick	539.4	7	1671.2	5	15.2	32	47.5	16	2.8	2.3	5.5	31	49
Carnival Cruise Lines (1)	529.3	9	1231.2	6	152.2	13	268.0	12	28.8	27.6	19.5	21	21
Eastman Kodak	4077.0	-4	11884.0	-1	-127.0	NM	271.0	-43	NM	2.8	12.4	33	75
Fisher-Price	215.8	16	500.6	3	20.4	42	25.6	-3	9.5	7.7	15.9	28	29
Fleetwood Enterprises (8)	537.4	14	1535.5	21	15.1	5	41.6	24	2.8	3.1	11.2	18	15
Harley-Davidson	284.4	5	888.4	12	16.4	24	55.3	39	5.8	4.9	19.3	22	16

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993	CHANGE FROM 1992	9 MONTHS 1993	CHANGE FROM 1992	3RD QUARTER 1993	CHANGE FROM 1992	9 MONTHS 1993	CHANGE FROM 1992	3RD QUARTER 1993	3RD QUARTER 1992			
	\$ MIL	%	\$ MIL	%	\$ MIL	%	\$ MIL	%	%	%			
Arman International Industries (6)	163.7	13	506.5	13	1.0	NM	10.3	419	0.6	NM	12.3	15	1.27
Lasbro	812.4	5	1815.0	6	75.5	12	129.3	14	9.3	8.7	16.1	17	2.17
Luffy	167.2	7	602.3	17	2.3	40	14.1	16	1.4	1.1	10.8	16	1.08
Mattel	671.1	11	1428.5	7	83.9	20	136.2	26	12.5	11.6	29.4	17	1.72
Musical Stores	251.3	18	697.1	16	0.1	-31	-3.4	NM	0.0	0.1	11.6	23	0.92
Polaroid	533.9	4	1572.3	5	24.9	-10	30.0	-57	4.7	5.4	8.1	29	1.27
Peco Toys	235.3	-1	482.2	-7	4.7	-70	-11.8	NM	2.0	6.6	-5.8	NM	-0.60

MANUFACTURING

INDUSTRY COMPOSITE	27644.6	4	80876.8	5	1365.0	53	3505.8	36	4.9	3.4	12.2	25	1.72
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GENERAL MANUFACTURING

GROUP COMPOSITE	10404.5	2	30413.6	3	620.8	-15	1937.3	-3	6.0	7.1	15.3	21	2.09
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Very Dennison	638.1	-3	1966.8	-1	19.0	2	64.0	5	3.0	2.8	10.9	18	1.42
Avlisse	160.6	20	459.8	13	8.1	22	21.4	16	5.0	4.9	12.8	18	1.77
Orning	1198.0**	9	2921.8	8	-33.9	NM	105.7	-54	NM	9.1	7.4	34	0.73
Orne	337.9	0	987.9	0	12.8	21	39.3	291	3.8	3.1	18.8	16	1.77
Oracell International (6)	437.5	2	1126.9	6	44.4	12	30.2	-55	10.1	9.2	12.4	33	1.07
Oride (9)	177.9	13	452.0	12	10.0	76	7.0	NM	5.6	3.6	25.5	NA	NM
Orderal Signal	142.7	5	416.7	8	10.7	15	28.4	15	7.5	6.8	20.6	24	1.10
Orasco	314.9	-24	1015.3	-16	18.3	-32	64.7	-3	5.8	6.4	17.4	12	3.56
Orillenbrand Industries (1)	340.6	9	1054.4	10	28.8	15	99.1	21	8.4	8.0	20.4	22	1.73
Orinois Tool Works	779.5	10	2358.9	12	50.9	4	147.8	5	6.5	6.9	16.2	22	1.77
Orstens (6)	167.2	9	705.9	4	1.0	13	-17.7	NM	0.6	0.6	-2.5	NM	-0.17
Orark IV Industries (10)	316.6	18	909.7	10	13.1	45	36.2	37	4.1	3.4	14.6	16	1.39
Orinnesota Mining & Mfg.	3481.0	-2	10538.0	0	316.0	-2	977.0	3	9.1	9.1	19.2	18	5.81
Orwell	456.7	14	1163.6	13	47.7	11	109.9	4	10.4	10.7	18.6	19	2.13
Orortek	202.0	-5	575.8	-7	-12.9	NM	-12.8	NM	NM	NM	-11.4	NM	-1.13
Orarker Hannifin (6)	607.4	0	1899.9	3	16.1	0	50.4	-3	2.6	2.6	6.9	25	1.34
Orubbermaid †	515.2	9	1487.3	8	60.4	15	160.6	31	11.7	11.1	19.6	27	1.28
Oratts Industries (6)	130.6	19	372.9	13	10.5	6	26.0	-9	8.1	9.1	9.3	22	2.07

MACHINE & HAND TOOLS

GROUP COMPOSITE	2689.1	2	7843.2	4	62.3	-12	217.9	11	2.3	2.7	5.3	42	0.70
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Orack & Decker	1189.6	0	3445.3	2	19.5	97	52.8	83	1.6	0.8	-6.6	NM	-0.73
Orount (10)	176.0	-3	513.4	0	2.4	82	4.9	NM	1.4	0.7	5.9	23	0.74
Oranaher	281.0**	14	788.3	14	14.5	49	37.3	63	5.1	4.0	13.7	21	1.59
Orap-on Tools	271.1**	20	814.5	19	20.5	36	61.4	15	7.6	6.7	10.6	23	1.74
OrPX	195.1	-18	586.8	-7	-19.6	NM	-13.5	NM	NM	4.0	-5.5	NM	-0.78
Oranley Works	576.3	5	1694.9	6	25.0	-2	75.0	5	4.3	4.6	14.9	19	2.25

SPECIAL MACHINERY

GROUP COMPOSITE	11553.5	4	34106.5	4	747.2	262	1343.8	293	6.5	1.9	12.2	25	1.95
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Orplied Materials (2)	281.4	45	752.6	39	28.2	164	65.2	146	10.0	5.5	14.4	32	0.97
Origgs & Stratton (6)	198.6	16	861.1	9	6.4	NM	55.3	63	3.2	NM	24.0	16	5.44
Oraterpillar	2845.0	6	8447.0	13	432.0	NM	533.0	NM	15.2	0.2	24.8	17	5.29
Orark Equipment	221.5	6	654.6	7	9.8	NM	23.2	NM	4.4	NM	7.5	41	1.17
Orere (2)	2049.4**	17	5578.3	10	100.1	NM	102.7	209	4.9	0.5	4.0	54	1.39
Orover	642.2	13	1803.5	7	42.4	26	115.9	22	6.6	5.9	18.4	22	2.63
OrMC	926.5	-5	2807.5	-6	35.3	-16	143.3	-11	3.8	4.3	57.0	10	4.73
Oreneral Signal	356.6	-13	1091.0	-12	22.5	41	59.3	27	6.3	3.9	4.0	72	0.47
Oroulds Pumps	149.9	2	426.7	-1	8.6	13	20.2	-9	5.7	5.2	10.4	27	0.94
Orarnischfeger Industries (2)	312.8**	-6	919.9	-11	-45.1	NM	-40.9	NM	NM	3.5	-4.2	NM	-0.78
Origersoll-Rand	973.5	8	2932.4	9	35.2	17	95.8	15	3.6	3.3	9.7	30	1.22
Ory Technologies (10)	136.4	-5	423.2	-5	1.6	NM	-0.8	NM	1.2	NM	-17.2	NM	-0.12
Orentair	345.5	5	987.6	8	13.3	15	32.6	17	3.8	3.5	12.6	14	2.37
Orewart & Stevenson Services (11)	257.9	29	700.5	23	13.8	32	39.0	33	5.3	5.2	15.3	29	1.54
Ornken	405.5	0	1269.3	2	-0.4	NM	12.3	183	NM	NM	1.7	80	0.40
Orco Laboratories (6)	790.0	-2	2330.6	-1	27.4	12	49.5	-34	3.5	3.0	8.2	26	1.65
Orarity (11)	660.9	-26	2120.8	-19	16.1	14	38.3	NM	2.4	1.6	8.9	39	1.01

TEXTILES

GROUP COMPOSITE	2997.5	13	8513.6	10	-65.4	NM	6.7	-78	NM	NM	2.4	NM	0.29
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Orone Mills	192.6	13	590.2	12	11.8	8	38.1	13	6.1	6.4	31.5	9	1.67
OrWG (8)	264.1	-2	745.6	-20	0.0	NM	-41.5	NM	0.0	NM	NM	NM	-1.73
Oreldcrest Cannon	256.7	6	717.2	1	-0.5	NM	6.3	-36	NM	2.4	6.0	23	1.17
Orerface	167.6	17	452.7	1	3.9	103	8.9	-2	2.3	1.3	6.4	20	0.67
Orohawk Industries	216.9	179	514.3	134	7.2	72	15.3	111	3.3	5.4	14.0	28	1.10
Orhawk Industries (6)	649.5	19	1838.1	27	34.1	56	88.4	63	5.3	4.0	16.9	29	1.58
Orings Industries	514.5	4	1500.1	4	13.7	3	31.8	6	2.7	2.7	8.7	14	2.60
Ornifi (6)	325.4	-2	1045.6	16	19.8	-33	96.4	25	6.1	8.9	21.1	13	1.84
Orrest Point-Pepperell	410.2	10	1109.8	1	-155.3	NM	-237.0	NM	NM	NM	-27.2	NM	-8.35

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS			RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-22	1 MONTH EARN. G. P. SH.
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %				
16 METALS & MINING														
INDUSTRY COMPOSITE	13879.3	1	41162.0	4	29.4	-77	-282.7	NM	0.2	0.9	-8.3	NM	-0.1	
(a) ALUMINUM GROUP COMPOSITE	4459.7	-7	13290.5	-5	-59.9	NM	-162.4	NM	NM	0.7	-7.1	NM	-2.1	
Aluminum Co. of America	2230.2	-6	6745.1	-4	28.8	-36	91.7	-10	1.3	1.9	0.3	NM	0.0	
Amox	893.3	-7	2622.5	-5	-60.7	NM	-170.6	NM	NM	NM	-15.1	NM	-3.0	
Reynolds Metals	1336.2	-9	3922.9	-8	-28.0	NM	-83.5	NM	NM	0.9	-12.5	NM	-3.0	
(b) STEEL GROUP COMPOSITE	7397.5	9	22034.9	13	-45.4	NM	-375.0	NM	NM	NM	-26.2	NM	-1.1	
Allegheny Ludlum	262.3	3	831.8	7	16.6	30	53.4	50	6.3	5.0	22.4	20	0.0	
Armco	419.8	-29	1300.5	8	-188.0	NM	-210.5	NM	NM	NM	NM	NM	-5.0	
Bethlehem Steel	1055.3	5	3193.1	6	31.2	NM	-15.4	NM	3.0	NM	-18.6	NM	-1.0	
Birmingham Steel (6)	127.6	14	359.9	9	3.7	-45	6.5	-61	2.9	5.9	4.4	52	0.0	
Carpenter Technology (6)	129.4	-7	443.3	-1	2.8	5	23.6	160	2.1	1.9	11.5	17	3.0	
Commercial Metals (4)	390.5**	12	1242.3	37	7.5	16	18.8	94	1.9	1.9	9.2	19	1.0	
Inland Steel Industries	972.0	13	2909.9	9	17.0	NM	-16.9	NM	1.7	NM	-42.7	NM	-3.0	
Lukens	211.4	4	659.4	34	5.8	-11	20.0	16	2.7	3.2	9.6	18	1.0	
National Steel	623.3	1	1833.4	2	-32.5	NM	-103.6	NM	NM	NM	-48.0	NA		
Nucor	587.3	39	1642.0	37	34.8	70	87.0	61	5.9	4.8	13.5	43	1.0	
Oregon Steel Mills	175.9	94	531.7	55	0.0	NM	16.0	-35	0.0	3.8	4.0	44	0.0	
Quanex (2)	153.5	8	456.3	10	2.7	20	5.1	-15	1.7	1.6	-0.4	NM	-0.0	
USX-U. S. Steel Group	1429.0	12	4064.0	10	36.0	NM	-284.0	NM	2.5	NM	NM	NM	-8.0	
Weirton Steel	300.7	14	899.8	12	-9.8	NM	-46.7	NM	NM	NM	-23.0	NM	-2.0	
Wheeling-Pittsburgh	269.3	14	774.1	9	10.5	NM	16.9	NM	3.9	NM	-0.7	NM	-0.0	
Worthington Industries (7)	290.1	16	893.4	17	16.4	27	54.8	31	5.6	5.1	15.7	37	0.0	
(c) OTHER METALS GROUP COMPOSITE	2022.1	-2	5836.6	-4	134.7	-37	254.7	-52	6.7	10.4	4.2	64	0.0	
Asarco	425.2	-13	1300.8	-9	-3.0	NM	-58.0	NM	NM	3.7	-8.9	NM	-2.0	
Freeport-McMoRan Copper & Gold	170.8	9	435.2	-14	29.1	10	10.2	-89	17.0	16.9	5.9	NM	0.0	
General Cable	219.6	-7	639.4	-7	-7.2	NM	-24.5	NM	NM	NM	-34.5	NM	-4.0	
Magma Copper	211.9	-3	596.6	-4	8.8	-62	13.7	-71	4.1	10.7	3.5	21	0.0	
Newmont Gold	169.9	18	447.8	7	41.7	76	89.2	26	24.6	16.5	12.3	42	1.0	
Newmont Mining	178.1	14	473.5	0	25.7	40	77.7	-10	14.4	11.7	11.7	52	0.0	
Phelps Dodge	646.7	-4	1943.2	1	39.7	-66	146.3	-38	6.1	17.6	10.5	14	3.0	
17 NONBANK FINANCIAL														
INDUSTRY COMPOSITE	53672.4	9	156532.5	6	4481.5	59	13257.8	27	8.4	5.7	14.1	14	3.0	
(a) FINANCIAL SERVICES GROUP COMPOSITE	30266.2	16	87304.0	10	2830.3	83	8494.3	34	9.4	5.9	19.7	12	3.0	
Alex. Brown	139.7**	33	409.4	25	15.2	37	50.3	34	10.9	10.6	23.1	6	45	
Alleghany	480.7	10	1350.4	3	20.4	10	75.0	43	4.2	4.2	10.4	12	128	
American Express	5818.0**	6	16884.0	2	420.0	NM	1079.0	205	7.2	NM	14.4	15	29	
AT&T Capital	330.7**	8	975.3	9	3.2	-65	31.7	-6	1.0	2.9	12.6	NA		
Bear Stearns (6)	771.7	28	2392.6	20	104.3	66	339.5	46	13.5	10.4	27.3	7	39	
Beneficial	477.7	8	1460.1	7	44.5	16	142.7	14	9.3	8.7	14.0	13	64	
Block (H&R) (8)	221.8	25	1327.2	15	-5.4	NM	186.4	14	NM	NM	31.6	23	1	
Countrywide Credit Industries (10)	255.7	66	661.0	67	46.1	35	128.4	51	18.0	22.2	20.5	12	25	
Crawford	144.3	-4	438.7	1	10.2	-7	29.1	-1	7.0	7.3	20.4	14	12	
Edwards (A. G.) (10)	314.4	22	934.9	20	35.6	32	110.1	29	11.3	10.5	20.3	10	24	
Equifax	311.8	12	886.1	7	-6.5	NM	34.9	-41	NM	8.0	23.4	32	0.0	
Fannie Mae	4068.2**	11	11825.9	10	527.8	25	1510.1	24	13.0	11.5	26.2	11	76	
Federal Home Loan Mortgage	1382.0	25	3865.0	18	200.0	24	582.0	25	14.5	14.6	19.5	13	33	
First Financial Management	418.0	12	1156.7	18	32.7	49	82.0	50	7.8	5.9	3.8	76	0.0	
Fleet Mortgage Group	139.2**	21	409.8	11	24.9	-16	16.3	-80	17.9	25.5	10.3	18	0.0	
Franklin Resources (3)	188.9	80	519.8	73	53.7	63	140.7	48	28.4	31.5	26.7	22	22	
Inter-Regional Financial Group	136.0	32	377.3	19	14.5	84	34.9	39	10.6	7.6	29.3	6	59	
Marsh & McLennan	766.4**	5	2383.6	7	76.1	10	269.8	8	9.9	9.5	27.9	19	42	
Merrill Lynch	4147.0**	22	12078.7	19	359.7	57	1047.1	43	8.7	6.7	23.8	8	118	
Morgan Stanley Group (11)	2489.2	19	6471.2	NA	224.2	88	564.9	NA	9.0	5.7	20.5	10	81	
PaineWebber Group	1043.3**	25	2928.9	16	59.1	14	189.3	10	5.7	6.2	20.5	7	42	
Primerica	2015.7**	62	4601.6	19	258.7	57	652.1	22	12.8	13.3	18.0	12	35	
Raymond James Financial (3)	132.0**	43	358.4	28	14.6	43	39.0	20	11.0	11.0	25.7	8	32	
Sallie Mae	641.1	-7	1952.1	-8	109.1	9	320.5	10	17.0	14.5	39.5	10	47	
Salomon	1859.0**	7	6035.0	0	20.0	233	388.0	-5	1.1	0.3	12.6	11	41	
Schwab (Charles)	271.6	38	806.2	18	28.9	272	95.9	71	10.6	4.0	37.6	16	24	
Transamerica	1302.2**	8	3814.2	8	138.9	59	354.6	39	10.7	7.3	14.0	11	59	
(b) INSURANCE GROUP COMPOSITE	20220.1	4	59764.3	5	1555.9	39	4659.6	29	7.7	5.8	11.0	15	3.0	
Aetna Life & Casualty	4302.9	-2	12923.5	-2	225.6	114	515.7	176	5.2	2.4	4.2	22	21	
AFLAC	1308.2	28	3666.4	26	64.5	35	177.0	32	4.9	4.7	17.7	15	26	
American General	1952.0**	4	5872.0	8	119.0	-14	414.0	4	6.1	7.4	11.5	12	23	
American International Group	4754.3**	10	13710.9	9	451.1	33	1407.9	21	9.5	7.9	13.5	15	57	

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
American National Insurance Capital Holding	318.5	-4	1003.7	3	31.9	-26	137.9	11	10.0	12.9	10.3	9	7.21
Remont General	706.7	0	2156.5	1	73.8	-17	231.1	0	10.4	12.6	13.8	13	3.12
Harford Steam Boiler Inspection	167.1	2	487.9	8	11.4	31	30.8	22	6.8	5.3	12.6	8	3.08
Oracle Mann Educators	167.1	-1	497.8	0	-22.6	NM	0.7	-98	NM	1.7	4.9	54	0.86
John Alden Financial	177.9	0	534.3	1	18.5	-1	57.5	8	10.4	10.4	19.3	10	2.62
WNL	368.2	22	1042.4	18	23.8	70	63.2	43	6.5	4.6	28.9	9	3.18
Progressive	364.2	6	1105.0	8	20.9	26	60.4	41	5.7	4.8	10.8	11	3.10
afeco	515.6**	25	1445.1	11	82.6	85	213.9	100	16.0	10.8	37.5	12	3.42
Paul	952.1**	11	2733.8	4	93.8	17	295.6	43	9.9	9.3	15.3	10	6.36
Archmark	1105.0	-2	3288.3	0	141.4	NM	337.9	83	12.8	NM	-3.8	NM	-2.18
Transatlantic Holdings	533.4	4	1600.0	4	64.4	-5	193.7	-2	12.1	13.3	20.9	14	3.51
nitritin	183.2	21	516.8	13	23.0	243	64.0	36	12.6	4.4	13.5	14	3.87
NUM	340.9	-8	1014.9	-1	14.3	-75	90.5	-27	4.2	15.1	6.5	18	2.50
BF&G	850.3	10	2527.5	11	72.1	-4	228.9	3	8.5	9.7	13.6	14	3.81
SLife	755.0	-25	2450.0	-14	20.0	82	68.0	209	2.7	1.1	3.7	35	0.39
SVINGS & LOAN GROUP COMPOSITE	3186.0	-10	9464.2	-14	95.3	-36	104.0	-75	3.0	4.2	0.0	58	0.36
hmanston (H. F.)	819.2**	-6	2284.9	-13	70.0	38	-188.1	NM	8.5	5.8	-7.4	NM	-1.72
California Federal Bank	258.9**	-23	837.4	-23	-56.8	NM	-91.8	NM	NM	NM	-10.4	NM	-3.01
East Savings Financial	142.0**	-13	440.2	-17	4.3	23	13.6	4	3.0	2.1	9.9	7	2.22
ime Savings Bank of N. Y.	137.9**	-35	444.0	-29	20.1	75	26.9	-4	14.6	5.4	1.6	NM	-0.15
lendale Federal Bank (6)	253.4**	-27	805.7	-26	-34.0	NM	-72.0	NM	NM	NM	-22.2	NA	NA
West Financial	488.3	-2	1448.7	-6	63.8	-9	205.9	-4	13.1	14.0	14.4	10	4.32
West Western Financial	759.0**	-7	2251.5	-12	-17.5	NM	80.3	-47	NM	3.9	-2.0	NM	-0.33
Metropolitan Financial	133.9	18	376.0	-3	15.1	33	44.5	-19	11.3	10.0	10.8	10	1.68
Standard Federal Bank	193.5**	-5	575.9	-6	30.4	25	84.7	20	15.7	11.9	16.1	9	3.43
OFFICE EQUIPMENT & COMPUTERS													
INDUSTRY COMPOSITE	50484.1	7	150156.3	7	173.7	NM	-4570.0	NM	0.3	NM	-12.8	NM	-1.86
BUSINESS MACHINES & SERVICES													
GROUP COMPOSITE	3707.3	15	10807.6	14	210.2	2	622.4	9	5.7	6.4	17.4	22	1.45
CompuCom Systems	256.5	47	697.1	37	2.8	50	7.3	71	1.1	1.1	21.9	13	0.32
JC International (11)	214.8	19	618.1	18	20.3	51	57.2	156	9.5	7.5	33.9	53	0.66
Fluxus	372.0	0	1140.6	2	37.0	-27	91.0	-38	9.9	13.6	18.8	20	1.77
ebold	162.3	22	446.9	15	12.7	16	33.1	27	7.8	8.2	11.7	25	2.39
arland (John H.)	129.9	14	393.4	19	13.3	-3	40.6	-6	10.3	12.0	29.2	14	1.62
ON Industries	203.1	4	566.7	9	11.6	-5	28.0	-1	5.7	6.3	23.1	24	1.18
elligent Electronics (11)	613.2	31	1800.4	22	9.2	408	24.2	25	1.5	0.4	15.2	28	0.80
iller (Herman) (7)	221.6	11	672.7	10	7.5	210	23.6	NM	3.4	1.2	9.3	28	1.08
ney Bowes	861.2	0	2568.9	3	69.0	-10	238.4	10	8.0	8.9	18.8	19	2.10
andard Register	179.1	5	523.1	2	9.7	12	28.7	7	5.4	5.1	11.5	14	1.43
ch Data (11)	352.0	55	968.2	54	7.0	54	19.1	53	2.0	2.0	12.7	19	1.46
allace Computer Services (5)	141.6	6	411.4	7	9.9	2	31.2	3	7.0	7.2	11.2	15	1.84
COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	39226.6	6	116913.8	6	-51.6	NM	-6941.1	NM	NM	NM	-24.1	NM	-5.63
Apple Computer (3)	2140.8	21	5976.7	14	2.7	-97	-74.8	NM	0.1	5.5	4.3	41	0.73
ST Research (6)	514.4	80	1293.9	63	8.2	8	-67.7	NM	1.6	2.7	-16.7	NM	-1.68
mpaq Computer	1746.2	64	4989.9	86	106.8	116	311.4	152	6.1	4.6	16.7	14	4.82
anner Peripherals	528.4	-16	1577.2	-3	-372.4	NM	-453.8	NM	NM	6.7	-79.1	NM	-9.07
ay Research	202.0	-8	592.2	4	15.3	134	36.5	213	7.6	3.0	1.3	65	0.40
ata General (3)	278.4	-3	798.2	-3	-37.2	NM	-61.2	NM	NM	0.2	-16.0	NM	-1.73
all Computer (11)	700.6	53	1993.2	80	-75.7	NM	-34.2	NM	NM	4.8	-1.8	NM	-0.27
igital Equipment (6)	3014.9	-9	10382.6	-1	-103.2	NM	-20.2	NM	NM	NM	-2.0	NM	-0.71
AC	215.7	109	534.1	99	38.5	424	80.3	321	17.8	7.1	29.8	37	0.96
awlett-Packard (2)	4961.0	23	14630.0	21	271.0	44	879.0	8	5.5	4.7	11.4	19	3.75
tergraph	250.6	-17	781.7	-10	-19.9	NM	-48.7	NM	NM	1.5	-7.4	NM	-1.08
ternational Business Machines	14743.0	0	43320.0	-4	-48.0	NM	-8369.0	NM	NM	NM	-70.0	NM	-24.27
axtor (9)	313.5	-12	919.7	-6	-59.6	NM	-151.5	NM	NM	5.2	-88.4	NM	-4.60
antum (9)	494.0	36	1479.6	37	-45.3	NM	-15.7	NM	NM	5.0	3.1	46	0.26
agate Technology (6)	773.9	4	2298.2	0	36.1	-40	108.6	-32	4.7	8.0	16.4	9	2.46
icon Graphics (6)	301.6	31	891.6	31	25.7	97	78.4	NM	8.5	5.7	16.7	33	1.36
orage Technology	304.0	-21	992.5	-10	-108.7	NM	-101.0	NM	NM	1.1	-10.2	NM	-2.78
in Microsystems (6)	960.5	12	3362.3	21	16.6	244	144.4	39	1.7	0.6	11.2	16	1.58
ndy	939.9**	7	2647.7	6	42.6	9	115.0	-5	4.5	4.5	7.6	23	1.75
am (7)	162.1	20	490.9	34	26.1	346	49.5	582	16.1	4.3	22.8	15	1.84
isys	1806.7**	-13	5641.4	-9	84.1	44	243.9	25	4.7	2.8	23.4	9	1.36
estern Digital (6)	285.5	5	896.1	13	-5.1	NM	-41.3	NM	NM	1.5	-26.3	NM	-0.94
rox	3589.0**	0	10424.0	0	150.0	24	451.0	26	4.2	3.4	-5.4	NM	-2.46
COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	7550.2	13	22434.9	14	15.2	-98	1748.6	-5	0.2	9.1	17.7	35	1.24
Automatic Data Processing (6)	552.0**	11	1761.6	13	58.5	13	230.7	14	10.6	10.5	20.1	25	2.13
abletron Systems (10)	141.9	47	396.4	48	28.3	47	79.0	48	19.9	19.9	29.0	26	3.58
iridian	208.9	3	659.2	9	10.7	15	32.0	NM	5.1	4.6	NM	18	1.00
co Systems (5)	205.2	85	522.7	89	53.7	97	138.7	101	26.2	24.6	36.2	37	1.33

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-22	MONTHS EARNINGS IN \$ F
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
Computer Associates International (9)	517.0	20	1480.4	17	87.5	86	217.4	75	16.9	10.9	29.2	22	1
Computer Sciences (9)	622.3	1	1880.7	1	18.3	7	62.5	10	2.9	2.8	11.4	20	41
Computervision	183.9	-21	621.7	-22	-543.0	NM	-562.3	NM	NM	NM	NM	NM	-11
Electronic Data Systems	2070.1	1	6205.3	3	191.6	15	521.1	14	9.3	8.2	20.1	21	1
First Data	381.0	24	1106.9	26	44.8	22	120.1	23	11.8	12.0	19.1	28	1
Government Technology Services	153.2	9	312.8	14	4.8	29	5.5	41	3.2	2.7	12.5	11	11
Gtech Holdings (10)	146.3	26	438.4	29	13.1	66	38.7	79	9.0	6.8	24.6	31	10
Lotus Development	240.1	16	702.9	7	18.3	-39	25.9	-61	7.6	14.6	9.4	49	0
Microsoft (6)	983.0	20	2980.0	29	239.0	14	747.0	25	24.3	25.6	28.4	25	3
Novell (2)	272.8	12	813.7	21	-255.4	NM	-104.1	NM	NM	27.1	-2.9	NM	-0
Oracle Systems (7)	398.1	30	1240.8	30	37.4	275	135.6	144	9.4	3.2	30.5	53	1
Safeguard Scientifics	291.1	42	795.4	33	1.9	16	8.6	13	0.7	0.8	10.0	10	2
SynOptics Communications	183.3	70	516.1	100	5.7	-58	52.1	104	3.1	12.5	24.7	26	10
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	20860.7	-2	62607.7	1	256.2	-37	1484.2	14	1.2	1.9	3.9	42	0
(a) FOREST PRODUCTS GROUP COMPOSITE	7667.7	-1	23355.0	4	78.3	NM	680.6	261	1.0	NM	8.3	24	1
Boise Cascade	1003.4	7	2961.4	5	-24.2	NM	-53.5	NM	NM	NM	-11.1	NM	-3
Georgia-Pacific	2982.0	-3	9131.0	2	-28.0	NM	18.0	NM	NM	NM	5.2	42	1
Louisiana-Pacific	629.4	-2	1875.2	13	41.5	-26	194.9	44	6.6	8.7	15.9	15	2
Pope & Talbot	150.9	5	469.7	17	1.3	NM	17.0	NM	0.9	NM	11.0	14	1
Weyerhaeuser	2224.9	-5	6953.4	1	66.6	-38	425.6	48	3.0	4.6	13.0	16	2
Willamette Industries	677.1	9	1964.2	11	21.1	5	78.6	15	3.1	3.2	7.4	24	1
(b) PAPER GROUP COMPOSITE	13193.0	-2	39252.7	0	177.9	-59	803.6	-28	1.3	3.2	1.9	77	0
Bowater	371.7	1	1121.8	2	-30.8	NM	-69.4	NM	NM	NM	-12.0	NM	-2
Champion International	1245.3	-1	3768.6	2	-53.5	NM	-103.9	NM	NM	3.8	-5.3	NM	-1
Chesapeake	238.3	1	684.0	1	2.6	-60	3.1	-76	1.1	2.8	1.2	NM	0
Consolidated Papers	228.8	-2	730.7	9	7.3	-34	50.3	24	3.2	4.7	6.4	30	1
International Paper	3400.0	-2	10268.0	0	48.0	-52	189.0	-41	1.4	2.9	0.2	NM	0
James River Corp. of Virginia	1183.5	-2	3495.3	-3	1.2	-61	4.8	NM	0.1	0.3	-9.4	NM	-1
Kimberly-Clark	1781.0	-1	5208.9	-1	111.2	-18	369.3	-8	6.2	7.5	13.3	26	1
Manville	600.2	1	1690.7	3	12.1	108	67.9	122	2.0	1.0	8.1	13	0
Mead	1261.8	1	3660.7	3	30.0	-20	102.8	401	2.4	3.0	7.7	21	2
Potlatch	338.2	-1	1026.4	2	-2.2	NM	22.7	-67	NM	5.2	3.6	36	1
Scott Paper	1179.5	-9	3544.4	-7	24.6	-20	71.6	-42	2.1	2.4	5.7	22	1
Union Camp	778.7	0	2326.6	0	4.9	-77	32.5	9	0.6	2.7	2.5	61	0
Westvaco (2)	586.0	0	1726.6	0	22.5	-37	62.9	-39	3.8	6.1	5.3	22	1
20 PUBLISHING & BROADCASTING													
INDUSTRY COMPOSITE	13593.5	4	39791.7	4	592.8	-8	2014.3	11	4.4	4.9	11.8	36	1
(a) BROADCASTING GROUP COMPOSITE	2911.3	9	8850.5	4	265.4	50	808.6	63	9.1	6.6	17.2	26	3
Capital Cities/ABC	1301.4	7	3918.5	6	78.3	26	300.6	20	6.0	5.1	10.9	24	26
CBS	752.6	12	2467.0	-3	118.3	177	279.9	117	15.7	6.4	30.5	16	19
Gaylord Entertainment	196.0	9	529.5	10	7.7	-34	21.2	3	3.9	6.4	14.8	78	0
Multimedia	153.3	9	460.9	13	30.2	101	63.7	54	19.7	10.7	NM	17	2
Viacom	508.1	8	1474.6	9	30.9	-31	143.2	163	6.1	9.6	17.6	46	1
(b) PUBLISHING GROUP COMPOSITE	10682.1	3	30941.3	3	327.4	-30	1205.7	-9	3.1	4.5	9.8	43	1
Belo (A. H.)	132.5	4	399.2	6	7.9	11	31.3	20	6.0	5.6	12.9	22	2
Dow Jones	468.7	7	1419.2	6	29.7	51	100.4	13	6.3	4.5	9.1	28	1
Dun & Bradstreet	1158.0	-3	3390.9	-2	158.5	6	402.5	7	13.7	12.6	28.3	20	3
Gannett	876.5	3	2659.0	5	88.8	12	268.8	16	10.1	9.3	21.5	19	2
Houghton Mifflin	208.5	5	379.4	1	41.5	22	31.1	-2	19.9	17.1	10.0	37	1
Knight-Ridder	593.1	5	1798.7	5	31.3	0	96.9	-5	5.3	5.6	11.8	22	2
McGraw-Hill	555.0	4	1512.8	3	-91.9	NM	-33.4	NM	NM	11.1	1.2	NM	0
Media General	147.5	5	444.3	4	5.1	183	16.6	55	3.5	1.3	11.2	32	0
Meredith (6)	182.3	3	583.6	8	3.4	0	13.9	NM	1.9	1.9	6.6	32	1
New York Times	445.6	5	1383.6	6	-3.0	NM	30.2	NM	NM	NM	2.6	73	0
Scripps (E. W.)	294.4	0	889.4	-5	14.1	55	68.8	49	4.8	3.1	16.7	15	1
Time Warner	3714.0	6	10425.0	6	-111.0	NM	-171.0	NM	NM	0.2	-29.2	NM	-1
Times Mirror Company	924.0	4	2695.2	3	73.6	102	141.0	38	8.0	4.1	4.6	53	0
Tribune	486.7	-8	1438.7	-7	38.6	14	130.5	38	7.9	6.5	17.7	23	2
Washington Post	364.1	4	1102.5	4	44.8	63	111.3	20	12.3	7.8	14.1	19	12
Western Publishing Group (11)	131.3**	6	419.7	5	-4.0	NM	-33.2	NM	NM	1.1	-12.7	NM	-1

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL.	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL.	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL.	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL.	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
SERVICE INDUSTRIES													
INDUSTRY COMPOSITE	20093.1	11	58182.5	11	-47.7	NM	1500.6	-32	NM	3.7	10.9	25	0.95
CONSTRUCTION & ENGINEERING													
GROUP COMPOSITE	5057.6	8	14649.5	10	113.6	31	329.4	41	2.2	1.9	14.9	18	1.54
Apogee Enterprises (10)	175.6	20	473.4	13	2.4	25	3.6	-7	1.4	1.3	4.9	33	0.42
Butler Mfg.	163.9	12	419.4	15	4.1	54	5.3	NM	2.5	1.8	16.5	17	1.49
G&G	746.2	0	2057.2	-2	15.2	-31	55.4	-11	2.0	3.0	17.6	12	1.44
Fluor (2)	1844.1	11	5657.1	19	40.8	4	118.5	11	2.2	2.4	14.8	22	1.79
Master Wheeler	616.4	-6	1849.5	7	12.2	27	39.4	23	2.0	1.5	13.5	23	1.49
McDermott International (9)	777.5	6	2243.5	-5	29.6	60	81.9	262	3.8	2.5	21.2	15	1.88
Morrison Knudsen	733.8**	26	1949.4	20	9.3	NM	25.3	285	1.3	NM	8.4	21	1.05
INDUSTRIAL DISTRIBUTION													
GROUP COMPOSITE	6743.8	19	19148.2	17	174.4	-8	606.4	15	2.6	3.3	13.5	23	1.28
Anthem Electronics	175.2	25	478.3	23	5.7	-28	17.5	-22	3.3	5.6	12.8	15	2.06
Arrow Electronics	697.8	71	1833.3	57	21.7	63	58.8	72	3.1	3.3	19.6	15	2.43
Beauregard Bearings (6)	214.8	5	643.5	4	2.3	51	7.9	NM	1.1	0.7	7.2	20	1.33
Chem-Del	139.8	36	387.6	32	4.2	16	13.1	18	3.0	3.5	11.9	19	1.67
Cisher Scientific International	260.2	23	729.3	20	9.7	17	24.3	23	3.7	3.9	19.0	17	1.92
Genuine Parts	1144.8	9	3288.9	9	63.0	6	185.3	8	5.5	5.7	18.1	19	2.03
Jetty Petroleum (11)	195.6	-20	616.4	-19	0.6	NM	8.4	NM	0.3	NM	5.3	39	0.35
Kraus (W. W.)	698.8	11	1965.4	11	38.7	4	108.3	7	5.5	5.9	15.7	19	2.76
Lughe Supply (11)	164.0	15	443.4	12	1.7	206	3.4	NM	1.0	0.4	4.6	19	0.91
Manan	203.0**	7	595.8	2	-42.5	NM	-33.7	NM	NM	2.4	-13.9	NM	-1.63
Marshall Industries (7)	199.8	32	546.2	21	7.5	25	19.3	13	3.7	4.0	12.5	16	2.93
Office Depot	659.9	52	1769.9	41	17.2	76	42.2	65	2.6	2.2	12.6	56	0.58
Pioneer-Standard Electronics (9)	137.3	37	389.9	32	4.8	65	12.9	77	3.5	2.9	17.5	12	1.62
Premier Industrial (7)	177.8	7	530.1	8	22.1	7	67.2	9	12.4	12.3	22.5	25	1.04
Staples (11)	241.3	25	754.7	29	-4.0	NM	8.8	NM	NM	NM	5.6	63	0.59
WBC	159.0	3	439.1	2	5.9	-7	16.5	-1	3.7	4.1	20.7	15	0.77
United Stationers (4)	360.2	9	1104.8	30	5.9	276	16.2	89	1.6	0.5	9.0	14	1.15
Univar (10)	474.1	2	1377.7	3	2.0	-33	5.7	-15	0.4	0.6	3.1	39	0.26
WR	135.7	3	388.3	6	2.9	-18	5.6	-21	2.2	2.7	17.7	18	0.71
Vulco & Gibbs	157.0	43	435.5	38	2.3	NM	6.2	394	1.5	0.1	-8.0	NM	-0.47
Wyle Laboratories (11)	147.6	16	430.1	16	2.8	-27	12.1	23	1.9	3.0	9.7	13	1.37
POLLUTION CONTROL													
GROUP COMPOSITE	3558.7	5	10385.5	6	-463.5	NM	37.6	-96	NM	7.8	3.2	86	0.21
Air & Water Technologies (2)	157.2	-14	516.2	1	1.3	NM	3.0	NM	0.8	NM	-2.1	NM	-0.18
Chemical Waste Management	541.6	37	1571.0	35	-359.9	NM	-316.0	NM	NM	9.8	-29.1	NM	-1.46
CF Kaiser International (10)	146.8**	-15	425.8	-25	1.3	-29	2.2	-68	0.9	1.1	-1.9	NM	-0.04
Just International	390.3	6	1123.9	4	20.9	181	58.6	-29	5.4	2.0	5.3	NM	0.15
VMX Technologies	2322.7	3	6748.7	5	-127.2	NM	289.9	-61	NM	9.6	11.0	24	0.97
PRINTING & ADVERTISING													
GROUP COMPOSITE	1169.5	3	3553.7	5	27.5	-33	159.2	7	2.3	3.6	19.3	19	1.63
ADVO (3)	234.6	12	696.4	16	-11.6	NM	-0.4	NM	NM	3.6	4.2	70	0.21
Anta	184.4	11	512.3	9	11.6	8	30.3	14	6.3	6.4	14.4	18	1.96
Interpublic Group	411.0**	-6	1284.6	-3	14.7	18	74.7	14	3.6	2.9	22.3	18	1.62
Omnicom Group	339.5	4	1060.4	8	12.8	24	54.6	31	3.8	3.2	24.1	17	2.67
OTHER SERVICES													
GROUP COMPOSITE	3563.4	11	10445.7	11	100.4	7	368.0	10	2.8	2.9	14.7	17	1.29
Adia Services	242.2**	28	669.4	26	5.5	55	13.6	78	2.3	1.9	8.8	14	1.45
American Bldg. Maintenance (2)	192.2	-1	568.1	0	3.4	4	8.4	2	1.8	1.7	11.2	12	1.43
ADI	232.7	7	683.7	7	2.9	127	5.4	97	1.3	0.6	5.5	29	0.31
Handelman (8)	194.0	-9	781.5	-1	-2.8	NM	22.1	-17	NM	2.1	12.9	11	1.10
naCom	394.2	65	1104.8	50	2.1	-23	8.6	27	0.5	1.1	9.4	13	1.37
Aid Atlantic Medical Services	159.6	6	480.9	12	6.0	69	14.4	67	3.8	2.4	31.9	22	1.30
HH (8)	538.6	5	1542.2	4	14.8	17	45.8	12	2.7	2.5	12.5	14	3.35
Linkerton's	175.9	7	506.5	4	0.2	-84	3.1	-14	0.1	0.7	6.9	23	0.98
Hollins	151.8	10	442.4	9	11.7	14	36.6	15	7.7	7.5	27.4	19	1.21
Safety-Kleen	182.0	-1	553.2	2	5.8	-6	24.9	-24	3.2	3.3	7.5	22	0.65
Service Corp. International	211.4	15	652.9	14	19.8	16	73.4	18	9.4	9.3	11.8	21	1.21
ServiceMaster	749.7	8	2063.6	11	31.6	24	114.9	9	4.2	3.7	53.8	15	1.82
Solt Information Sciences (2)	139.0	5	396.5	6	-0.7	NM	-3.3	NM	NM	1.9	-1.3	NM	-0.20
TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	51102.7	4	149718.9	4	4014.6	-4	12249.0	0	7.9	8.5	17.5	20	2.47
EQUIPMENT & SERVICES													
GROUP COMPOSITE	23099.2	5	67359.8	5	1397.9	14	3974.5	10	6.1	5.6	24.5	22	2.25
American Telephone & Telegraph	16662.0	3	48697.0	3	1073.0	11	3113.0	11	6.4	6.0	30.1	19	3.05
Comsat	152.5	4	472.9	16	17.4	NM	55.8	115	11.4	NM	11.2	18	1.81
SC Communications	188.0	32	512.8	37	23.3	236	52.9	NM	12.4	4.9	18.7	54	1.31
IN Broadcasting †	175.1	20	497.6	21	-26.5	NM	-57.7	NM	NM	NM	NM	NM	-1.29
ICI Communications	3054.0	14	8793.0	13	174.0	9	520.0	16	5.7	5.9	15.5	23	1.23
Print	2867.6	9	8386.5	9	136.7	9	290.5	-23	4.8	4.8	11.2	27	1.37

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE- EARNINGS RATIO 10-22	MO. 45 EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
(b) TELEPHONE COMPANIES													
GROUP COMPOSITE	28003.5	4	82359.1	3	2616.7	-11	8274.5	-4	9.3	10.9	15.4	19	2.8
Alltel	571.7	9	1687.3	9	66.0	13	193.0	17	11.5	11.2	18.3	21	17
Ameritech	2946.8	5	8694.1	5	425.0	29	1114.6	10	14.4	11.7	19.7	16	5
Bell Atlantic	3289.6	3	9673.0	2	386.7	-2	1144.4	9	11.8	12.3	18.2	19	3
BellSouth	4014.9**	7	11755.5	4	442.4	15	1286.7	-1	11.0	10.3	11.6	19	3
Cincinnati Bell	289.2	4	833.2	-2	15.6	26	50.0	30	5.4	4.5	8.3	30	0
GTE	4943.0	0	14685.0	-1	558.0	20	1456.0	15	11.3	9.4	19.3	18	2
Nynex	3330.4	0	10014.9	2	298.3	-7	969.6	-2	9.0	9.6	13.1	14	3
Pacific Telesis Group	2602.0	4	7705.0	4	323.0	13	616.0	-28	12.4	11.4	12.4	25	2
Rochester Telephone	230.5	14	664.3	12	19.2	4	57.1	14	8.3	9.2	12.1	21	2
Southern New England Telecomms.	414.1**	2	1227.1	2	48.7	24	126.1	6	11.8	9.7	15.5	14	2
Southwestern Bell	2795.1	7	7792.2	7	408.8	6	1049.3	10	14.6	14.7	19.4	18	2
US West	2576.2	5	7627.6	4	-375.1	NM	211.8	-74	NM	9.9	11.0	40	1
23 TRANSPORTATION													
INDUSTRY COMPOSITE	32375.5	7	93553.2	7	851.5	240	2461.7	1598	2.6	0.8	6.8	34	1.0
(a) AIRLINES													
GROUP COMPOSITE	14370.3	9	41010.0	10	223.1	NM	-8.9	NM	1.6	NM	-15.5	NM	-2.3
Alaska Air Group	323.4	1	851.1	-1	8.0	NM	-10.6	NM	2.5	NM	-31.8	NM	-4
America West Airlines	335.1	4	976.6	-2	14.4	NM	26.8	NM	4.3	NM	NM	2	0
AMR	4199.0	13	12225.0	13	125.0	NM	150.0	NM	3.0	NM	-2.8	NM	-1
Delta Air Lines (6)	3219.8	5	9277.9	7	60.4	NM	-84.8	NM	1.9	NM	-17.7	NM	-6
Southwest Airlines	554.4	24	1528.6	23	43.9	63	108.5	70	7.9	6.0	14.5	32	0
UAL	3990.0	12	10870.0	12	149.0	NM	34.0	NM	3.7	0.2	-19.0	NM	-8
USAir Group	1748.6	3	5280.7	5	-177.6	NM	-232.8	NM	NM	NM	NM	NM	-11
(b) RAILROADS													
GROUP COMPOSITE	8285.3	1	24686.6	3	381.0	-18	1829.2	52	4.6	5.6	14.3	17	3
Burlington Northern	1141.0	-1	3453.0	1	24.0	-61	178.0	-5	2.1	5.3	18.1	17	3
Conrail	854.0	1	2543.0	2	-3.0	NM	128.0	-33	NM	8.9	7.3	24	2
CSX	2238.0	1	6625.0	2	63.0	-51	208.0	NM	2.8	5.8	11.6	22	3
Illinois Central	147.4	12	422.2	6	21.5	22	65.4	18	14.6	13.4	22.9	18	1
Kansas City Southern Industries	253.3**	34	699.6	29	23.3	44	66.9	44	9.2	8.5	16.9	24	1
Norfolk Southern	1084.1**	-9	3370.0	-2	147.0	1	441.1	3	13.6	12.3	12.5	16	4
Santa Fe Pacific	665.5	4	1993.8	7	-2.8	NM	271.8	NM	NM	NM	37.3	8	2
Union Pacific	1902.0	3	5580.0	4	108.0	-42	470.0	-12	5.7	10.0	14.1	19	3
(c) TRANSPORTATION SERVICES													
GROUP COMPOSITE	4357.4	9	12769.5	8	102.6	77	280.7	NM	2.4	1.5	9.0	24	1.8
Airborne Freight	434.2	17	1252.9	15	11.1	436	21.0	NM	2.5	0.6	8.0	22	1
Federal Express (7)	2015.7	8	5994.2	6	32.9	224	92.5	NM	1.6	0.5	7.8	28	2
Pittston Services Group	400.4**	10	1144.4	11	15.3	74	31.7	91	3.8	2.4	12.7	22	1
Ryder System	1043.5	4	3123.4	4	23.5	-14	84.2	13	2.3	2.7	8.7	20	1
Trinity Industries (9)	463.6	18	1254.7	18	19.9	105	51.4	129	4.3	2.5	11.9	22	1
(d) TRUCKING & SHIPPING													
GROUP COMPOSITE	5362.4	12	15087.2	9	144.7	44	360.7	8	2.7	2.1	9.3	20	1.8
Alexander & Baldwin	282.8**	45	681.8	24	7.9	100	43.3	9	2.8	2.0	11.4	18	1
American President	636.5	5	1832.4	0	25.5	9	58.9	-13	4.0	3.9	13.9	12	4
Arkansas Best	267.1	7	740.9	3	8.8	26	15.3	2	3.3	2.8	8.5	15	0
Carolina Freight	198.6	7	582.7	8	-1.6	NM	-2.5	NM	NM	0.0	-7.1	NM	-1
Consolidated Freightways	1067.0	3	3080.2	2	17.1	993	33.7	220	1.6	0.2	0.2	NM	0
GATX	279.9**	3	788.4	3	11.7	NM	56.5	234	4.2	NM	9.6	13	2
Greyhound Lines	194.6	-3	511.4	-3	13.4	-11	14.6	159	6.9	7.5	12.5	8	1
Hunt (J. B.) Transport Services	253.6	5	761.2	14	8.8	-18	27.3	1	3.5	4.4	11.4	22	0
Landstar System	200.6	16	568.8	15	4.5	91	8.6	110	2.2	1.4	17.0	17	0
Roadway Services	983.9	18	2779.2	14	29.0	-12	76.6	-20	3.0	3.9	12.6	18	3
TNT Freightways	236.2	19	663.4	17	9.2	28	21.5	24	3.9	3.6	14.5	21	1
Yellow	761.7	33	2096.8	23	10.5	-9	6.8	-80	1.4	2.0	2.8	51	0
24 UTILITIES & POWER													
INDUSTRY COMPOSITE	49063.0	10	134752.2	8	5912.6	-2	14249.7	7	12.1	13.5	11.3	15	2
(a) ELECTRIC, WATER & COGENERATION													
GROUP COMPOSITE	44123.1	9	118075.0	7	5851.0	1	13245.7	5	13.3	14.4	11.2	15	2
AES	129.2	20	387.6	37	23.1	38	66.0	62	17.9	15.6	28.1	18	1
Allegheny Power System	583.3	6	1750.4	1	58.8	20	179.3	7	10.1	8.9	11.6	15	3
American Electric Power	1406.0	10	3937.8	5	149.2	21	398.3	12	10.6	9.6	12.0	14	2
Baltimore Gas & Electric	774.1	14	2022.6	7	157.1	26	278.7	26	20.3	18.4	10.9	13	1

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 9-30	PRICE-EARNINGS RATIO 10-22	12 MONTHS' EARNINGS PER SHARE
	3RD QUARTER 1993 \$ MIL.	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL.	CHANGE FROM 1992 %	3RD QUARTER 1993 \$ MIL.	CHANGE FROM 1992 %	9 MONTHS 1993 \$ MIL.	CHANGE FROM 1992 %	3RD QUARTER 1993 %	3RD QUARTER 1992 %			
Carolina Power & Light	854.8	4	2236.8	6	118.6	-18	282.6	-8	13.9	17.6	13.1	14	2.17
Centerior Energy	709.0	7	1896.1	3	33.5	-76	134.9	-37	4.7	20.8	4.7	17	0.92
Central & South West	1141.0	15	2817.0	16	179.0	2	302.0	-5	15.7	17.8	12.8	16	1.96
Central Maine Power	227.4	10	662.4	1	13.6	-11	48.8	-6	6.0	7.3	9.6	10	1.65
Edison	141.7	3	432.4	2	13.8	0	29.3	-3	9.7	10.0	9.3	17	2.43
Entergy	408.6	16	1269.6	12	59.5	29	167.8	7	14.6	13.1	11.0	14	2.16
Exxon	235.7	25	636.3	17	41.1	31	72.4	16	17.4	16.6	13.6	13	2.43
Exxon Energy	758.0	23	2546.0	12	35.0	169	137.0	65	4.6	2.1	-30.2	NM	-3.06
Commonwealth Edison	1872.4	10	4786.4	5	287.1	22	429.7	5	15.3	13.8	8.2	13	2.19
Consolidated Edison Co. of N. Y.	1799.7	5	4781.8	7	324.8	5	541.2	8	18.1	18.0	12.5	14	2.59
Costco Energy	153.2	67	437.9	57	21.4	-18	67.7	10	14.0	28.2	15.2	12	1.51
Detroit Edison	976.2	7	2686.3	1	153.4	-1	391.2	-11	15.7	17.0	16.1	10	3.48
Dominion Resources	1287.1	19	3398.2	17	209.5	30	456.6	34	16.3	14.9	12.9	15	3.33
DPL	264.8	17	856.5	14	35.3	4	124.3	3	13.3	15.0	14.4	15	1.39
Duke	336.5	6	902.0	-1	50.6	5	120.1	2	15.0	15.2	12.1	13	2.73
Duke Power	1290.0	13	3285.0	9	241.4	27	505.6	32	18.7	16.7	13.7	15	2.83
Entergy	1411.0	14	3407.5	9	247.4	12	464.6	8	17.5	17.8	10.9	14	2.74
Florida Progress	768.9	23	1815.5	13	85.2	8	168.9	11	11.1	12.6	11.1	16	2.21
PL Group	1602.7	2	4084.7	4	235.9	19	460.3	16	14.7	12.7	13.3	14	2.85
General Public Utilities	990.2	11	2734.6	5	135.2	45	290.5	28	13.7	10.5	13.1	12	2.85
Hawaiian Electric Industries	299.5	11	860.5	15	17.7	-3	49.2	-2	5.9	6.7	10.7	15	2.42
Houston Industries	1467.5	16	3402.1	9	269.2	8	414.4	19	18.3	19.7	12.7	15	3.17
IS Industries	212.1	31	595.6	21	28.2	48	54.3	41	13.3	11.8	11.8	13	2.42
Illinois Power	452.4	15	1198.0	8	-123.9	NM	-66.6	NM	NM	16.6	-5.6	NM	-0.96
Calco Enterprises	183.3	10	505.4	6	11.8	-59	59.8	-16	6.4	17.1	9.7	18	2.05
Kansas City Power & Light	256.9	12	656.6	8	44.9	18	86.5	28	17.5	16.6	12.0	15	1.65
U Energy	160.6	6	454.8	4	25.1	10	66.6	7	15.6	15.1	13.3	15	2.08
G&E Energy	221.0	5	659.7	9	36.4	17	77.4	18	16.5	14.8	12.6	15	2.72
Long Island Lighting	849.7	14	2215.0	9	144.6	2	269.2	1	17.0	18.9	11.3	12	2.21
Midwest Resources	281.2	19	857.7	17	33.8	177	70.0	109	12.0	5.2	11.9	13	1.46
Montana Power	248.7**	8	772.7	10	12.1	-23	57.1	-8	4.8	6.8	11.1	14	1.89
New England Electric System	576.6	7	1674.3	4	58.2	14	136.2	-10	10.1	9.4	11.4	16	2.62
New York State Electric & Gas	396.4	8	1307.4	4	32.5	22	128.1	-14	8.2	7.2	8.8	16	2.03
Ohio Edison	632.9	5	1792.5	2	94.1	17	240.2	11	14.9	13.4	11.4	13	1.82
Oklahoma Gas & Electric	500.6	13	1145.9	13	90.8	19	117.9	32	18.1	17.2	13.5	11	3.13
Orange & Rockland Utilities	237.5	24	716.7	17	17.3	0	39.0	7	7.3	9.0	12.4	12	3.33
Pacific Gas & Electric	2947.3	5	7875.2	2	356.1	1	857.1	-11	12.1	12.6	11.8	15	2.32
Philadelphia Electric	1073.1	8	3046.3	2	181.7	28	451.7	39	16.9	14.3	13.4	13	2.50
Pinnacle West Capital	534.6	2	1323.3	3	94.0	1	175.9	13	17.6	17.7	11.0	12	1.97
Portland General	209.2	7	678.2	8	9.4	-40	65.3	9	4.5	7.9	12.7	11	2.02
Public Service Co. of Colorado	422.4	4	1477.7	9	25.5	-14	104.6	0	6.0	7.3	10.8	14	2.10
Public Service Co. of New Mexico	203.8	-1	643.1	2	23.9	182	41.6	40	11.8	4.1	-15.5	NM	-2.38
Public Service Enterprise Group	1402.0	12	4243.1	7	202.0	38	550.4	27	14.4	11.8	12.1	13	2.58
Puget Sound Power & Light	230.2	5	791.8	7	18.1	0	99.0	4	7.9	8.2	11.3	12	2.05
Rochester Gas & Electric	217.3	10	692.8	6	20.2	15	56.2	36	9.3	8.8	10.8	13	2.21
San Diego Gas & Electric	495.0	1	1454.6	4	59.1	8	161.9	8	11.9	11.2	14.4	14	1.85
Santa Ana	359.5	18	961.7	12	66.0	60	141.1	48	18.4	13.5	13.6	14	3.70
SECorp	2423.9	-5	5976.6	-1	221.5	-22	532.2	-14	9.1	11.1	11.0	14	1.46
Terra Pacific Resources	130.1	10	392.5	10	15.5	36	38.2	12	11.9	9.7	7.1	19	1.13
Southern	2636.0	11	6543.7	5	465.1	8	939.9	6	17.6	18.0	13.7	14	3.18
Southwestern Public Service (4)	244.5	13	617.5	9	37.0	4	81.0	4	15.2	16.5	14.8	13	2.43
Sto Energy	364.7	7	961.6	8	52.7	-3	117.5	0	14.4	15.9	15.1	19	1.29
Texas Utilities	1786.3	21	4184.7	12	80.6	-75	455.4	-27	4.5	22.0	6.7	22	2.05
Union Electric	689.3	5	1654.5	4	161.3	-3	292.3	10	23.4	25.4	14.5	14	3.08
Wheelabrator Technologies	283.9	-26	809.4	-24	35.7	7	118.9	-15	12.6	8.7	13.2	20	0.83
Wisconsin Public Service	156.3	11	503.0	9	16.5	31	49.3	27	10.6	8.9	15.3	13	2.73
Worn Industries (9)	215.5	21	657.7	39	6.8	9	-1.0	NM	3.2	3.5	2.3	59	0.46
AS, OIL & TRANSMISSION													
GROUP COMPOSITE	4940.0	15	16677.2	17	61.5	-69	1004.0	52	1.2	4.7	12.7	17	1.86
Paso Natural Gas	245.1	13	676.6	17	18.4	31	69.9	17	7.5	6.5	12.2	16	2.32
Iron	1908.7	27	5648.3	31	17.2	-73	223.7	-3	0.9	4.3	12.9	25	1.31
Quitable Resources	272.7	89	750.3	36	8.6	20	48.2	31	3.2	5.0	11.9	18	2.26
ICN	180.5	-2	1024.8	4	-11.0	NM	45.3	3	NM	NM	12.4	18	2.01
Corporation	185.5	8	1136.2	16	9.2	2	72.3	14	5.0	5.3	15.1	16	1.85
Neok (4)	128.2	20	629.7	21	-1.6	NM	32.4	20	NM	0.9	10.2	15	1.43
Shanhandle Eastern	447.5	-7	1633.9	-1	25.6	-64	129.5	-10	5.7	15.0	10.4	15	1.54
Onat	324.5	8	1178.0	16	20.3	-5	215.1	258	6.3	7.1	19.2	11	2.96
Ansco Energy	675.0	5	2134.6	12	-43.2	NM	-12.1	NM	NM	1.2	-3.5	NM	-0.38
Williams	572.2	3	1864.9	10	18.0	-3	179.7	179	3.1	3.4	13.9	12	4.74

Footnotes on page 125

CORPORATE SCOREBOARD

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A A&P 10c Abbott Laboratories 12d ACX Technologies 7b Adia Services 21e Advanced Micro 9d ADVO 21d AES 24a Aetna Life & Casualty 17b AFLAC 17b Ahmanson (H.F.) 17c Air & Water Techs. 21c Air Products & Chemicals 4 Airborne Freight 23c Alaska Air Group 23a Albertson's 10c Alcoa 16a Alexander & Baldwin 23d Alex. Brown 17a Allegheny 17a Allegheny Ludlum 16b Allegheny Power 24a Allergan 12b AlliedSignal 5 Alltel 22b Amax 16a AMC Entertainment 14b Amerasia Hess 11b America West 23a American Brands 6e American Building 21e American Cyanamid 4	American Electric 24a American Express 17a American General 17b American Greetings 14d American Home 12b American Intl. Group 17b American Maze-Products 10b American Medical 12c American National 17b American President 23d American Stores 10c Ameritech 22b Ames Dept. Stores 8 Amgen 12b Amoco 11b AMP 9d Amphenol 9d AMR 23a AmSouth Bancorporation 3c Analog Devices 9d Anheuser-Busch 6c Anthem Electronics 21b Apogee Enterprises 21a Apple Computer 18b Applied Materials 15c Arbor Drugs 12a Arco Chemical 4 Arkansas Best 23d Armco 16b Armstrong World 6b Arrow Electronics 21b Arvin Industries 2b Asarco 16c	Ashland Oil 11b AST Research 18b AT&T 22a AT&T Capital 17a Atlantic Richfield 11b Automatic Data 18c AutoZone 8 Avery Dennison 15a Avon Products 6d Azlar 14c B Baker (J.) 8 Ball 7a Baltimore G&E 24a Banc One 3b Bancorp Hawaii 3d Bandag 2c Bank of Boston 3a Bank of New York 3a BankAmerica 3d Bankers Trust 3a Banta 21d Bard (C.R.) 12d Barnett Banks 3c Baroid 11c Bausch & Lomb 12d Baxter International 12d Bear Stearns 17a Bearings 21b Beckman Instruments 9c Bell Atlantic 22b BellSouth 22b	Belo (A.H.) 20b Bemis 7b Beneficial 17a Bergen Brunswig 12a Best Buy 6b Bethlehem Steel 16b Betz Laboratories 4 Beverly Enterprises 12c Big B 12a Bindley Western Inds. 12a Birmingham Steel 16b Black & Decker 15b Block (H&R) 17a Block Drug 6d Blackbuster Ent. 14b Blount 15b Blount's Bancshares 3b Bob Evans Farms 14a Boeing 1 Boise Cascade 19a Borden 10b Bowater 19b Bradlees 8 Briggs & Stratton 15c Brinker International 14a Bristol-Myers Squibb 12b Brown Group 6a Brown-Forman 6c Bruno's 10c Brunswick 14d Burlington Northern 23b Burlington Resources 11b Butler Mfg. 21a	C Cabletron Systems 18c Caesars World 14c Caldor 8 California Federal Bank 17c Campbell Soup 10b Capital Cities/ABC 20a Capital Holding 17b Capstead Mortgage 13b Cardinal Distribution 12a Caremark Intl. 12c Carlisle 15a Carnival Cruise Lines 14d Carolina Freight 23d Carolina Power 24a Carpenter Tech. 16b Carter Hawley Hale 8 Carter-Wallace 12b Casey's General 10c Caterpillar 15c CBS 20a CDI 21e Centenor Energy 24a Centex 13b Central Maine Power 24a Central & South West 24a Ceridian 18c Champion Intl. 19b Charming Shoppes 8 Chase Manhattan 3a Chemed 21b Chemical Banking 3a	Chemical Waste 21c Chesapeake 19b Chevron 11b Chrysler 2a Cilcorp 24a Cincinnati Bell 22b Cincinnati G&E 24a Cipso 24a Circuit City Stores 6b Circus Circus 14c Cisco Systems 18c Citicorp 3a Clark Equipment 15c Clayton Homes 13b Clorox 6d CML Group 8 CMS Energy 24a Coast Savings 17c Coastal 11b Coca-Cola 6c Coca-Cola Bottling 6c Coca-Cola Enterprises 6c Colgate-Palmolive 6d Coltec Industries 5 Comerica 3b Commercial Metals 16b Commonwealth Ed. 24a Compaq Computer 18b CompuCom Systems 18a Computer Associates 18c Computer Sciences 18c Computervision 18c Comsat 22a	ConAgra 10b Cone Mills 15d Conner Peripherals 18b Conrail 23b Consolidated Edison 24a Cons. Freightways 23d Consolidated Papers 19b Consolidated Stores 8 Continental Bank 3b Continental Medical 12c Cooper Industries 9a Cooper Tire & Rubber 2c CoreStates Financial 3a Corning 15a Costco Wholesale 8 Countrywide Credit 17a CPC International 10b Cracker Barrel 14a Crane 15a Crawford 17a Cray Research 18b Crestar Financial 3c Crompton & Knowles 4 Crown Cork & Seal 7a CSX 23b CUC International 18a Culbro 6e Cummins Engine 2b Curitice-Burns Foods 10b	Danaher 15b Dart Group 5 Data General 18b Dayton Hudson 8 Dean Foods 10b Deere 15c Delchamps 10c Dell Computer 18b Delta Air Lines 23c Deluxe 18a Dentsply Intl. 12d Destec Energy 24a Detroit Edison 24a Dexter 4 Dial 5 Diamond Shamrock 10b Diebold 18a Digital Equipment 10b Dillard 8 Dime Savings Bank 10b Dole Food 10b Dollar General 8 Dominion Resources 10b Donaldson 2b Dover 15c DQE 24a DQE 24a Dr Pepper/Seven-Up 10b Dresser Industries 10b Dreyer's Grand Ice Cream 10b
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CORPORATE SCOREBOARD

ALPHABETICAL LIST OF COMPANIES

Number following each company name identifies the Scoreboard category under which it is listed

Emporium 12a Communs 22a Power 24a Bradstreet 20b nt 4 ell International 15a 15d	F F&M Distributors 8 Family Dollar Stores 8 Fannie Mae 17a Fay's 12a Federal Express 23c Federal Home Loan 17a Federal Paper Board 7b Federal Signal 15a Federal-Mogul 2b Federated Dept. Stores 8 Ferro 4 Fieldcrest Cannon 15d Fifth Third Bancorp 3b Fingerhut 8 First Bank System 3b First Chicago 3b First Data 18c First Fidelity 3a First Financial Mgmt. 17a First Interstate Bancorp 3d First of America Bank 3b First Union 3c Fisher 3b Fisher Scientific 21b Fisher-Price 14d Flagstar 14a Fleet Financial Group 3a Fleet Mortgage Group 17a Fleetwood Ent. 14d Fleming 10a Florida Progress 24a	Flowers Industries 10b Fluor 21a FMC 15c Food Lion 10c Foodarama 10c Ford Motor 2a Foster Wheeler 21a Foundation Health 12c FPL Group 24a Franklin Resources 17a Freeport-McMoRan 4 Freeport-McMoRan C&G 16c Fremont General 17b Fuller (H. B.) 4 G Gannett 20b Gap 8 GATX 23d Gaylord Ent. 20a GenCorp 1 Genentech 12b General Cable 16c General Dynamics 1 General Electric 5 General Instrument 9b General Mills 10b General Motors 2a General Public Uts. 24a General Signal 15c Genesco 8 Genuine Parts 21b Geon 4	Georgia Gulf 4 Georgia-Pacific 19a Gerber Products 10b Getty Petroleum 21b Giant Food 10c Gillette 6d Glendale Federal Bank 17c GM Hughes Electronics 9b Golden West 17c Goodrich (B. F.) 4 Goodyear Tire & Rubber 2c Goulds Pumps 15c Goetzmar Technology Sys. 18c Grainger (W. W.) 21b Great A&P Tea 10c Great Lakes Chemical 4 Great Western 17c Greif Bros 7b Greyhound Lines 23d Grumman 1 GTE 22b Gtech Holdings 18c H Handleman 21e Hanna (M. A.) 4 Hannaford Brothers 10c Harcourt General 5 Harland (John H.) 18a Harley-Davidson 14d Harman International 14d Hamischfeger 15c Harris 9b	Harsco 15a Hartford Steam 17b Hartmarx 6a Hasbro 14d Hawaiian Electric 24a HCA 12c Health Care & Retirement 12c Healthtrust 12c Hechinger 8 Heilig-Meyers 6b Heinz (H. J.) 10b Helene Curtis Industries 6d Hershey Foods 10b Hewlett-Packard 18b Hillenbrand 15a Hillhaven 12c Hills Stores 8 Hilton Hotels 14c Holly 11b Home Depot 8 Home Shopping 8 HON Industries 18a Honeywell 9c Horace Mann 17b Hormel Foods 10b Host Marriott 14c Houghton Mifflin 20b House of Fabrics 8 Houston Industries 24a Hubbell 9a Huffy 14d Hughes Supply 21b Humana 12c	Hunt (J. B.) 23d Huntington Bancshares 3b I IBM 18b IBP 10b ICF Kaiser Intl 21c IES Industries 24a Illinois Central 23b Illinois Power 24a Illinois Tool Works 15a IMC Fertilizer 4 Imcera Group 12d Imo Industries 9c InaCom 21e Ingersoll-Rand 15c Inland Steel 16b Integra Financial 3a Intel 9d Intelligent Electronics 18a Interface 15d Intergraph 18b Intl. Multifoods 10b International Paper 19b Intl. Specialty Prods. 4 Interpublic Group 21d Interstate Bakenes 10b Inter-Regional Financial 17a Ipalco Enterprises 24a ITT 5	J James River 19b Jamesway 8 John Alden Finl 17b Johnson Controls 9c Johnson & Johnson 12d Jones Apparel Group 6a Jostens 15a Joy Technologies 15c K Kaman 21b Kansas City Power & Light 24a Kansas City Southern 23b Kaufman & Broad 13b Kellogg 10b Kellwood 6a Kendall International 12d Kerr-McGee 11b KeyCorp 3a Kimball International 6b Kimberly-Clark 19b Kmart 8 Knight-Ridder 20b Kohl's 8 Kroger 10c KU Energy 24a L L. A. Gear 6a La-Z-Boy Chair 6b Ladd Furniture 6b	Lafarge 13a Lands' End 8 Landstar System 23d Leggett & Platt 6b Lennar 13b LG&E Energy 24a Lilly (Eli) 12b Limited 8 LIN Broadcasting 22a Liton Industries 9b Liz Claiborne 6a Lockheed 1 Lochte 4 Long Island Lighting 24a Longs Drug Stores 12a Longview Fibre 7b Loral 9b Lotus Development 18c Louisiana-Pacific 19a Lowe's 8 LSI Logic 9d LTV 5 Lubrizol 4 Lukens 16b Lyondell 4 M Magma Copper 16c MagneTek 9a Manor Care 12c Manville 19b Marion Merrell Dow 12b Mark IV Industries 15a
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CORPORATE SCOREBOARD

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Marriott Intl 14a	Meyer (Fred) 8	N	NL Industries 4	Owens-Corning 13a	PHH 21e	Promus 14c	Roadway Services 14
Marsh & McLennan 17a	Micron Technology 9d	Nalco Chemical 4	Nordstrom 8	Owens-Illinois 7a	Philadelphia Electric 24a	PS Co. of Colorado 24a	Rochester G&E 24
Marshall Industries 21b	Microsoft 18c	Nashua 7b	Norfolk Southern 23b	Oxford Industries 6a	Philip Morris 6e	PS Co. of New Mexico 24a	Rochester Telephone 24
Martin Marietta 1	Mid Atlantic Medical 21e	National City 3b	Nortek 15a		Phillips Petroleum 11b	Public Service Ent 24a	Rohm & Haas 4
Mattel 14d	Midlantic 3a	National Convenience 10c	Northern Trust 3b	P	Phillips-Van Heusen 6a	Puget Sound Power 24a	Rohr 1
Maxtor 18b	Midwest Resources 24a	National Gypsum 13a	Northrop 1	Paccar 2a	Pier 1 Imports 6b	Pulte 13b	Rollins 21e
May Department Stores 8	Miller (Herman) 18a	National Health Labs 12c	Norwest 3b	Pacific G&E 24a	Pinkerton's 21e		Rose's Stores 8
Maytag 6b	Millipore 9c	National Intergroup 5	NovaCare 12c	Pacific Telesis Group 22b	Pinnacle West 24a	Q	Ross Stores 8
McCormick 10b	Minnesota Mining 15a	National Medical 12c	Novell 18c	PaineWebber Group 17a	Pioneer Hi-Bred 10b	Quaker Oats 10b	RPM 13a
McDermott Intl 21a	Mitchell Energy 11b	National Semicond 9d	Nucor 16b	Pall 5	Pioneer-Standard 21b	Quanex 16b	Rubbermaid 15a
McDonald's 14a	Mobil 11b	National Service 9a	NWNL 17b	Pamida Holdings 8	Pitney Bowes 18a	Quantum 18b	Russell 6a
McGraw-Hill 20b	Modine Mfg 2b	National Steel 16b	Nynex 22b	Panhandle Eastern 24b	Pittston Mineral 11a	QVC Network 8	Rust Intl 21c
MCI Communications 22a	Mohawk Industries 15d	NationsBank 3c	O	Paragon Trade Brands 7b	Pittston Services 23c		Ryder System 23c
McKesson 12a	Moirex 9d	Navistar Intl 2a	Occidental Pet 11b	Paramount Communs 14b	Ply Gem Industries 13a	R	Rykoff-Sexton 10a
MCN 24b	Monsanto 4	NBD Bancorp 3b	Office Depot 21b	Parker Hannifin 15a	PNC Bank 3a	Raychem 9a	
Mead 19b	Montana Power 24a	NCH 6d	Ohio Edison 24a	Payless Cashways 8	Polaroid 14d	Raymond James Finl 17a	5
Media General 20b	Morgan (J. P.) 3a	Neiman Marcus Group 8	Oklaoma G&E 24a	Penn Central 5	Pope & Talbot 19a	Raytheon 9b	Safeco 17b
Medtronic 12d	Morgan Stanley 17a	New England Electric 24a	Olin 4	Penn Traffic 10c	Portland General 24a	Reebok International 6a	Safeguard Scientifics 10
Mellon Bank 3a	Morrison Knudsen 21a	New York State E&G 24a	Omnicom Group 21d	Penney (J. C.) 8	Potlatch 19b	Reliance Electric 9a	Safety-Kleen 21e
Melville 8	Morrison Restaurants 14a	New York Times 20b	Oneok 24b	Pentair 15c	PPG Industries 13a	Republic New York 3a	Safeway 10c
Mercantile Bancorp 3b	Morton International 4	Newell 15a	Oracle Systems 18c	Pep Boys 8	Praxair 4	Revco D. S. 12a	Sallie Mae 17a
Mercantile Stores 8	Motorola 9b	Newmont Gold 16c	Orange & Rockland Uts. 24a	PepsiCo 6c	Pramark International 5	Reynolds Metals 16a	Salomon 17a
Merck 12b	Multimedia 20a	Newmont Mining 16c	Oregon Steel Mills 16b	Perry Drug Stores 12a	Premier Industrial 21b	Rhone-Poulenc Rorer 12b	San Diego G&E 24
Meredith 20b	Murphy Oil 11b	Nicar 24b	Orinda HealthCorp 12c	Pet 10b	Price 8	Richfood Holdings 10a	Santa Fe Pacific 23
Merrill Lynch 17a	Musciand Stores 14d	Nike 6a	Oryx Energy 11b	Petrie Stores 8	Primera 17a	Rite Aid 12a	Sara Lee 10b
Merry-Go-Round 8		Nine West Group 6a	Owens & Minor 12d	Phelps Dodge 16c	Procter & Gamble 6d	Riverwood Intl 7b	Scana 24a
Metropolitan Financial 17c					Progressive 17b	RJR Nabisco 6e	SCEcorp 24a



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CORPORATE SCOREBOARD

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g-Plough 12b berger 11c an (A) 4 s (Charles) 17a rams 9b per 19b (E.W.) 20b rd 10b Technology 18b b ceback 8 Food Town 10c atic Electronics 9b Corp. Intl. 21e Merchandise 8 Master 21e dustries 15d at National 3a Williams 13a s 14a Stores 8 atic Resources 24a anking 3c ographics 18b 13b (O.) 2b	Smith's Food & Drug 10c Smithfield Foods 10b Snap-on Tools 15b Society 3b Soletron 9d Sonat 24b Sonoco Products 7b Southern 24a Southern New Eng. Tel. 22b Southland 10c SouthTrust 3c Southwest Airlines 23a Southwestern Bell 22b Southwestern PS 24a Spiegel 8 Springs Industries 15d Sprint 22a SPX 15b St. Paul 17b Standard Federal Bank 17c Standard Motor Prods. 2b Standard Products 2b Standard Register 18a Standex Intl. 13a Stanhome 6d Stanley Works 15b Staples 21b	State Street Boston 3a Stewart & Stevenson 15c Stone Container 7b Stop & Shop 10c Storage Technology 18b Strawbridge & Clothier 8 Stride Rite 6a Stryker 12d Summit Health 12c Sun 11b Sun Microsystems 18b Sunbeam-Oster 6b Sundstrand 1 SunTrust Banks 3c Super Food Services 10a Super Rite 10a Supermarkets Gen. 10c Supervalu 10a SynOptics Commun. 18c Syntex 12b Sysco 10a T Tambrands 6d Tandy 18b TBC 21b Tech Data 18a	Teco Energy 24a Tektronix 9c Teledyne 5 Teleflex 1 Temple-Inland 7b Tenneco 5 Teradyne 9c Terra Inds. 4 Texaco 11b Texas Industries 13a Texas Instruments 9d Texas Utilities 24a Textron 5 Thiokol 1 Thomas & Betts 9a Thorn Apple Valley 10b 3Com 18b 3M 15a Tidewater 11c Timberland 6a Time Warner 20b Times Mirror 20b Timken 15c TJ Intl. 13a TJX 8 TNT Freightways 23d Torchmark 17b	Toro 6b Tosco 11b Toys 'R' Us 8 Transamena 17a Transatlantic Holdings 17b Transco Energy 24b Tribune 20b Trinity Industries 23c TRW 5 Tultex 6a Tyco Laboratories 15c Tyco Toys 14d U U. S. Bancorp 3d U. S. Healthcare 12c U. S. Home 13b U. S. Shoe 8 U. S. Surgical 12d UAL 23a UJB Financial 3a Ultramar 11b Unifi 15d Union Bank 3d Union Camp 19b Union Carbide 4	Union Electric 24a Union Pacific 23b Union Texas 11b Unisys 18b United Stationers 21b United Technologies 1 United Wisconsin Services 12c Unitrin 17b Univar 21b Universal 6e Universal Health 12c Unocal 11b UNUM 17b Upjohn 12b US West 22b USAir Group 23a USF&G 17b USG 13a USLife 17b UST 6e USX-Marathon 11b USX-U. S. Steel 16b V Valero Energy 11b Valspar 13a Varian Associates 9b	Vantiv 15c Venture Stores 8 VF 6a Viacom 20a Viking Office Products 8 Village Super Market 10c VLSI Technology 9d Volt Info. Sciences 21e Vulcan Materials 13a VWR 21b W Wabco 8 Wachovia 3c Wal-Mart Stores 8 Walgreen 12a Wallace Computer 18a Warner-Lambert 12b Washington Post 20b Watts Industries 15a Weirton Steel 16b Weis Markets 10c Wellman 4 WellPoint Health 12c Wells Fargo 3d West Point-Pepperell 15d Western Digital 18b	Western Publishing 20b Westinghouse Electric 9a Westvaco 19b Weyerhaeuser 19a Wheelabrator Techs. 24a Wheeling-Pittsburgh 16b Whirlpool 6b Whitman 5 Willamette Industries 19a Willcox & Gibbs 21b Williams 24b Winn-Dixie Stores 10c Wisconsin Public Service 24a Witco 4 WLR Foods 10b WMX Technologies 21c Woolworth 8 Worthington Inds. 16b Wyle Laboratories 21b XYZ Xerox 18b Yellow 23d York International 13a Zenith Electronics 6b Zurn Industries 24a
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STUCK!

HOW COMPANIES COPE WHEN THEY CAN'T RAISE PRICES

Grandparents love them. So do parents. And kids do look awfully cute running around in their Oshkosh B'Gosh Inc. bib overalls. But in the past few years, the Wisconsin-based maker of high-quality children's clothing has faced increasing price resistance from consumers. To strengthen its ties to retailers, the company is working closely with department stores, helping to pay for new store fixtures and fancier displays. To lower costs, it's overhauling production processes and investing in worker training to become a highly flexible manufacturer. And in an unprecedented action to jump-start sales, Oshkosh will slash prices by 6% to 8% on its entire 1994 spring line of clothes.

It's not just Oshkosh, by gosh. All across the marketplace, companies are snipping away at their price tags. Mercedes-Benz is lowering prices on some luxury cars by almost 15%. Compaq Computer Corp. is slashing prices on its top-of-the-line personal computers by 23%. Borland International Inc. has chopped the list price on its latest Quattro Pro spreadsheet from \$495 to \$99. Boeing Co. is effectively freezing the prices of its commercial airplanes for the next five years. Says Ron Woodard, executive vice-president of Boeing Commercial Airplane Group: "Our airplanes cost too much."

RETHINK EVERYTHING. It's the Age of Disinflation—and it's creating a business landscape that few of the managers of these companies have seen in their professional lifetimes. The savvier among them aren't just whipping out the markdown pen, though. Like Oshkosh, a growing number of corporations are recognizing that ferocious pricing pressure means that they

have to rethink virtually every aspect of how they do business. In this unfamiliar and treacherous terrain, they're having to abandon many of their old, inflation-inspired business habits. To preserve profits and eke out growth, companies are being forced to come up with radically different corporate strategies, manufacturing techniques, marketing tactics, compensation structures, and approaches to financing.

Battered by worldwide overcapacity, brutal global competition,

WHERE IS THE INFLATION?

PERCENT CHANGE IN PRICES
THIRD QUARTER TO THIRD QUARTER



STRATEGIES FOR THRIVING IN DISINFLATIONARY TIMES

TARGET PRICING Forget traditional cost-plus pricing. Instead, reverse the equation for price-driven costing. A pricing target means reengineering a corporation to speed up new-product development, simplify design, and optimize the work flow.

VALUE PRICING Coupons, discounts, and rebates have gotten out of hand. Back on expensive promotions and offer stable, low, everyday prices.



ING DOWN Offer cost-conscious consumers quality products with fewer bells and whistles at a cheaper price.

G VALUE Introduce innovative products sold at a modest premium. Backed by strong merchandising and advertising campaigns.

G CLOSE TO CUSTOMERS Know what customers really want and deliver it. Use the new information technologies to closely track their needs and costs.

GLOBAL The future is now. It's about increasing unit volume, and less about new markets offer more pricing flexibility.

LARGE QUANTITIES, BUSINESS WEEK



slow growth, and high unemployment, corporate pricing power has clearly been crumbling. Since 1990, consumer price inflation has fallen from a 5.4% annual rate to its current 2.7% yearly pace. At the same time, producer price inflation is down from 4.9% to 0.5%. It adds up to "a paradigm shift as profound in its significance for disinflation as the oil crisis of 1973 was for inflation," says Peter L. Bernstein, an economic consultant in New York City.

EXPOSED. In the new world of disinflation, cost-cutting is, of course, essential. But by freeing prices of the distortion of inflation, this challenging environment is also restoring prices to their traditional role as economic arbiter: They are the signals that tell companies and individuals how the marketplace truly values the goods they make and the services they sell.

The price a company charges is, in turn, the culmination of every decision it has made along the line. Without the cloak of inflation, all those decisions are directly exposed to the ruthless pressures of the marketplace.

A number of companies are beginning to chart some imaginative paths across the new landscape of disinflation. They're redesigning products for ease and speed of manufacture or stripping away costly features that their customers don't value. Many are paring back expensive rebates and discounts in favor of stable, low, everyday prices. They're seeking to gain a bit of shelter from relentless pricing pressure by forging closer links with their customers or accelerating new-product development. They're working to improve pro-

PHOTO: COURTESY OF THE U.S. DEPARTMENT OF COMMERCE

Cover Story

ductivity not just with layoffs but by tearing down bureaucratic barriers between departments and investing in high-tech hardware. Over the past 18 months, real equipment spending has increased by 24%, with about two-thirds of the increase concentrated in information technologies. "The management challenge of the 1990s is to reduce costs—and increase the perceived value of the product," observes Arthur L. Kelly, a private investor and director

industrial products. "That means you have to get productivity improvements forever."

Of course, it may be too early to say that disinflation is here to stay. Inflationary pressures usually ease during slack times, and both the Federal Reserve and bond traders are convinced that inflation will roar back to life as the economy picks up. Many executives see rising prices on the horizon, too, arguing that business costs are being pro-

Still, certain industries, such as telecommunications and energy, lived with lower prices through much of the 1980s. By the end of the decade, gale winds of international competition and deregulation propelled disinflation into a broad array of manufacturing and consumer-goods businesses. What is most striking now is the spread of disinflation to previously immune sectors of the economy, such as legal services and health care. Even in the pharmaceutical industry, which enjoyed the luxury of raising prices at twice the rate of inflation through the 1980s, price-cutting is becoming rampant.

PLENTY OF GOODIES. To be sure, disinflation's spread is far from bad news. It means that consumers won't have to worry about sticker shock every time they pick up a box of detergent. Corporations can count on stable or falling prices for a host of raw materials, parts, services, and labor—not to mention capital costs, which are at the lowest levels in 25 years.

But inflation was the devil we knew, and the devil that companies learned to live with. When prices were soaring, hiking revenues and reporting profits was as simple as changing a price tag. Pay raises were easy, too. "When you have inflation, it covers up a lot of sins," says Eugene P. Beard, chief financial officer at Interpublic Group of Companies Inc., the advertising-agency holding company.

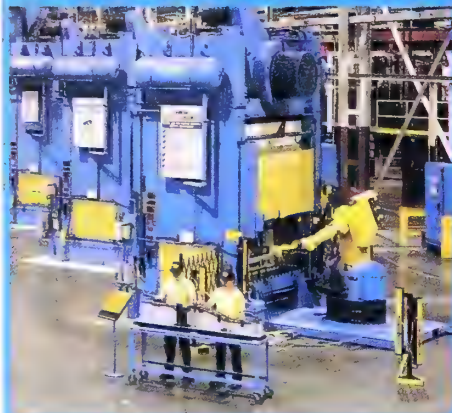
Disinflation, by contrast, is a more stern taskmaster. A 1% drop in prices will slash operating profits by 12.3% for the average Standard & Poor's 500 company, assuming that costs and volume remain the same, figures Michael Marn, a consultant at McKinsey & Co. To avoid that kind of devastation, a growing number of companies know they can no longer let their internal processes determine price. Rather, it's the market that must determine process.

In the traditional approach to pricing, a company comes up with a selling price by adding up its costs, factoring in overruns, and putting an acceptable profit margin on top. These days, such cost-driven pricing is a recipe for too-high prices and a nice wide opening for lower-cost rivals.

That's why some companies are reversing the price equation. At General Motors Corp.'s Cadillac division, for example, marketers begin by setting a target price for a new model. "Then, we say your profit is so much, and you work down into the cost. We never used to do it that way," says Janet Eckhoff, Cadillac's director of marketing and product strategy. "We're backing into the [price] from the customer's perspective." Her boss, GM Chief Executive



NO-FRILLS OPTIONS REEBOK WILL OFFER FOR SHOE ATTACHES, FROM \$80 TO \$100



EFFICIENT FACTORIES SEEKING IMPROVEMENTS FOREVER AT DANA



DISTINCTIVE FEATURES GOODYEAR'S PRICED AQUATRED TIRE IS SELLING

of Deere, BMW, and Nalco Chemical.

Above all, the relentless pressure of disinflation means that companies must constantly review all aspects of their business to make sure they're doing whatever it takes to offer customers high-quality goods at low prices. "We are in a period of low to no inflation that we may live with till the year 2000," says Southwood J. "Woody" Morcott, chairman and chief executive of Toledo-based Dana Corp., a \$4.9 billion producer of automotive parts and other

pelled upward by higher taxes, government mandates, and President Clinton's health-care-reform package. No doubt, inflation scares will periodically roil the markets, and there will always be some companies or industries that are able to raise prices. Even now, the 14% decline in the value of the dollar against the Japanese yen is forcing Japanese companies to hike prices in the U.S. on everything from memory chips to cars, which could give domestic rivals in those markets some pricing room (page 154).



Yep. Flatter than
yesterday's root beer.

No. Everyone's fine.

In weather like this?

Sooner is better.

Ten minutes flat.
Very funny.



When you want the security
of a cellular phone, you need
the quality of a Motorola.





GOING FOR VOLUME PHILIP MORRIS SLASHED PRICES ON ITS BRANDS TO FIGHT THE RISE OF CHEAP GENERICS

Smith, is a big believer in the target-pricing technique.

This seemingly simple shift in pricing philosophy has profound implications for product development, sourcing, manufacturing, and management. For example, target pricing won't work if it takes five to six years to develop and produce a car: Costs, competition, and consumer demand will have shifted too much in half a decade. To set a realistic sales price, the development cycle must be three years or less, as it was with the Neon, Chrysler Corp.'s new \$9,000 subcompact. In turn, speeding up the development cycle requires stitching together teams from engineering, design, finance, marketing, and production. It means empowering workers and using lean manufacturing techniques. It means working with suppliers to deliver quality parts. Many of these efforts were already under way as companies strove to improve productivity, quality, and customer responsiveness. But disinflation has made them vastly more urgent.

TEAM EFFORT. Compaq is a case in point. After being battered for several years by low-cost personal-computer rivals, Compaq struck back in 1992. It now builds computers that cost up to 60% less through what it calls "design to price."

Here's how it works: A design team comes up with specifications for a new computer. It sits down with marketing, manufacturing, customer service, purchasing, and other departments. Based

on a price target set by marketing and a profit-margin goal from management, the team determines what the costs will have to be. To achieve cost targets, engineers design products with fewer parts, and reuse parts from existing designs. Compaq's factories have been overhauled to crank out products more cheaply. And supplier contracts have been renegotiated, cutting material costs by \$212 million in 1992 and \$425 million this year.

The first products manufactured under the new pricing system, the Prolinea personal computer and the Contura notebook computer, came out in less than eight months. Since the third quarter of last year, Compaq's sales volume has skyrocketed 64%, and profits have nearly doubled.

Cincinnati Milacron Inc. is another manufacturer that is paying renewed attention to manufacturing during the design process. It now builds machine tools with 30% to 40% fewer parts. On the new Maxim 500, a machining center it introduced last year to replace its T-10, design streamlining reduced the number of fasteners from 2,542 to 709 and cut assembly time from 1,800 hours to 700 hours. Altogether, the approach cut production costs by 36%—and the selling price for the Maxim 500 is the same as it was

for the machine it replaced. Plus, Maxim takes up 60% less floor space, can be installed and started up in days instead of two weeks, and much more rapid changeovers, which sharply increases productivity.

Similar tactics paid off in lower production costs for Milacron's plastic injection-molding machines, which typically sell at 7% to 9% below price. "Five years ago, we couldn't

profitable with that count]," says Milacron CEO Daniel J. McManus. "Now, we can not only be profitable, we're gaining market share."

Other companies are seeking to escape price pressure by embracing "value-added" strategies, introducing a new or improved product that still be sold at a premium price. Intel Corp. has its Pentium microchip,

Goodyear Tire & Rubber Co. has its Sensor razor system, and Goodyear Tire & Rubber Co. has Aquatred, an all-season radial designed to provide better traction on wet roads. The Aquatred costs an average of about 10% more than Goodyear's previous top-of-the-line mass-market tire, but the company has sold more than 2 million Aquatreds since its introduction years ago. Goodyear concentrates on speeding new products to market, backing them with strong merchandising.

IS THE U.S. THE MOST PRICE-COMPETITIVE MARKET IN THE WORLD?



What you really want is the goose.

Once upon a time, you could set a well defined goal, direct the organization towards it and if all went well, it all came out as the desired result. But in this unpredictable era, what do you need to adjust the goal? What do you need two eggs? Or a dozen?

Instead of a single finite outcome, we offer an approach that will keep producing. An enterprise in which all the parts function cooperatively.

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and advertising campaigns once they get there. "If you can have a richer mix, that's as good as a price increase on the lower end," says Chief Executive Stanley C. Gault.

QUALITY GENERICS. But selling value may be the toughest marketing job around these days. For one thing, the quality of many generic products, from diapers to cigarettes to drugs, has dramatically improved in recent years. The inroads of generics forced Philip Morris Cos., for example, to slash prices on its flagship

Marlboro brand by 40¢ a pack. With brand loyalty on the wane, it's a challenge for marketers to find the right price gap between a name brand and a low-cost rival. "A brand will carry a premium, but the question is, how much of a premium?" says George J. Bull, Grand Metropolitan PLC's CEO for food operations.

Moreover, consumers now expect low prices even on many value-added products. Emerson Electric Co., an \$8.2 billion instruments-and-electronics maker,

finds it increasingly difficult to raise prices even on innovative products. "In general," says Emerson CEO Charles Knight, "customers see little reason for price increases." Emerson and most other manufacturers, he adds, are sharing whatever cost reductions they get with their customers, putting even a downward pressure on prices.

That has some companies taking the opposite tack from price-cutting: They're stripping down, selling a product at a cheaper price by offer-

FOR JAPANESE COMPANIES, A DOUBLE WHAMMY

In the 1960s, Japanese imports were synonymous with cheap. Then, in the 1970s and 1980s, they became known for quality. Now they're getting a new label: expensive.

Even as most American companies struggle to hold down prices, Japanese companies are going the other way and dramatically hiking their U.S. prices. From cars to memory chips, the wholesale price of Japanese-made goods has jumped 7.3% since last year (chart). That's far faster than the 0.5% rise in average U.S. wholesale prices.

But executives at Japanese manufacturers have little reason to crow. Forced to raise prices by a deadly combination of a strong yen and a weak economy at home, they are losing market share to U.S. rivals. That's why many Japanese exporters are increasingly adopting a strategy of moving factories—and jobs—out of Japan.

In the short run, Japanese companies are raising export prices to keep profits from crashing. A year ago, a dollar in U.S. sales bought 125 yen. Now it only brings 108 yen, a 14% drop in revenues.

In some markets where there are few U.S. competitors, Japanese companies have been able to raise wholesale prices with relative impunity. In consumer electronics, price hikes by such companies as Sony Corp have been largely absorbed by U.S. retailers. "We were certainly not able to raise our prices to maintain our margins," says Kurt Larsen, senior buyer at Best Buy Co., a Minneapolis-based consumer-electronics chain, "and I didn't see anyone else doing it."

But most Japanese exporters are finding that big price increases can hurt them. Take Toyota Motor Corp., which in September announced

price rises averaging 3.9% on comparable 1994 models. Ford, by contrast, only raised its average list price by a minuscule 0.2%. That's a key reason Ford's sales in recent months are up by some 9% over the previous year, about twice Toyota's increase.

And ironically, when Japanese com-

panies cut its exports from Japan by 26%, while increasing production in the U.S. and elsewhere by 22%. And Honda Motor Co. recently announced that by next spring all Honda Civics sold in the U.S. will be made in Ohio.

Even Japanese makers of consumer electronics products such as VCRs and



YEN SQUEEZE HOW LONG CAN U.S. ELECTRONICS RETAILERS PATIENCE HIDE?

panies try to hold the line on prices, they're open to antidumping suits. Eastman Kodak Co. recently accused Fuji Photo Film of selling imported photography supplies below cost, in part because Fuji didn't boost U.S. prices when the yen rose. Kodak's complaint will be investigated by the Commerce Department, which could levy heavy tariffs on Fuji.

STATESIDE RUSH. With the yen stuck at current levels, moving production out of Japan is looking more and more like the right strategy. Over the last year, Nissan, for ex-

ample, cut its exports from Japan by 26%, while increasing production in the U.S. and elsewhere by 22%. And Honda Motor Co. recently announced that by next spring all Honda Civics sold in the U.S. will be made in Ohio.

Even Japanese makers of consumer electronics products such as VCRs and camcorders are feeling pressure to move production out of Japan. Already that has been happening in the color-TV industry: As Japanese companies have invested heavily in U.S. and Mexican production facilities, few color TVs are now being exported from Japan to the U.S.

Japanese companies have adapted to currency shocks before. But in deflationary times, they are being pressed harder than ever. If their prices keep going up, the tag "Made in Japan" may become a euphemism for "Too expensive to buy."

By Michael J. Mandel in New York with Neil Gross in Tokyo, Lois Trench in Chicago, and bureau report.



s. It's a tactic Southwest Airlines Co. exploited to become the most profitable carrier in its industry, and United Lines Inc. may emulate it by setting a new low-cost subsidiary to compete against short-haul rivals. Says Rob L. Crandall, chief executive of AMR Corp., parent of American Airlines Inc.: "The market is telling all the traditional airlines that they must compete in a low-cost, low-price world."

Even such a flashy brand name as Reebok International is stripping down. Its best-selling sneaker is the \$135 Shaquille, named after Shaquille O'Neal, the popular center for the Orlando Magic basketball team. But sales of such top-of-the-line sport shoes, after surging much of the 1980s, have been falling sharply industrywide. So Reebok plans to launch four different versions of the Shaq Attack next year, with prices ranging from a stripped-down sneaker to \$130 a gadget-laden one. It expects to move most of its shoes in the \$50 to \$80 range in 1994—about \$10 to \$15 less than last year's best-selling range.

Another costly tactic that some companies are stripping away is the frenzied sale and discount strategy they once used on to lure customers. They're using the savings from eliminating such promotional gimmicks to pay for everyday low prices. Consumer giant Wal-Mart & Co., for example, has increased its promotional spending to help pay for 10% to 25% price cuts on several of its products, including Pampers Luvs diapers, Liquid Tide detergent, and Folger's coffee.

1 TAB, FAT MARGINS. And on the food front, Burger King Corp. abandoned coupons, discounts, and e-mail as key weapons in the food wars. Instead, it's using everyday low "value pricing" "combo meal" bargains, much like McDonald's Corp. and Taco Bell before it (page 62).

In most markets, Burger King is cutting the price of its croissant-sandwich breakfast combo from \$1.99 to \$2.47, and its pepper hamburger with french fries and a drink is down to \$3.72. The savings from getting rid of promotions is that the new strategy is expected to have much of an impact on profit margins in the near future, and higher volumes will eventually show up in better profits, says Sidney J. Felten, Burger King's senior vice president for marketing.

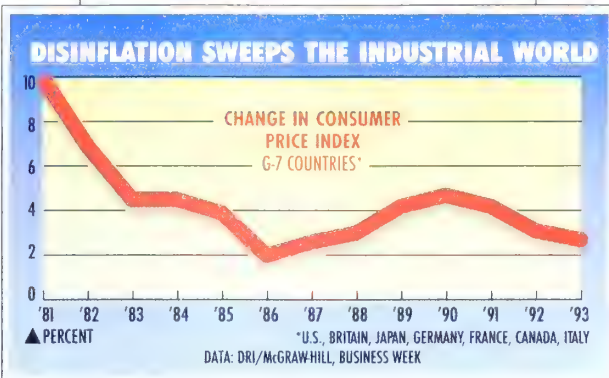
New information technologies are also helping some companies

price better. Data bases and computer networks allow managements to move away from traditional average-pricing techniques. Instead, the new information technologies let companies closely track customer preferences and finely target prices, says McKinsey's Marn. Similarly, new accounting systems, such as activity-based cost accounting, allow

to add volume and cut costs in response to price pressures. "Our strategy is focused on believing that prices will come down," says Columbia CEO Richard L. Scott.

Nevertheless, considering the inflation experience of the past three decades or so, does it make sense for companies to go through the turmoil of adapting to a disinflationary world? It certainly seems so, especially as price wars rack industry after industry, from airlines to cigarettes. "We've found the U.S. to be the most price-competitive market in the world," says David de Pury, co-chairman of the board at ABB Asea Brown Boveri Inc., the Swiss-Swedish maker of capital equipment.

The pricing pressures are global, though. Japan is flirting with deflation, as is most of Europe. Worldwide, overcapacity plagues



managers at Hewlett-Packard, General Electric, and Dana to quantify in depth the costs of production inefficiencies. And having a better handle on production costs encourages smarter pricing.

In industries such as health care, the pressure of disinflation is also driving companies into mergers and alliances that would once have been unthinkable. Consider Merck & Co.'s \$6 billion purchase of Medco Containment Services Inc., the country's largest drug discount-er. Then there's Columbia Healthcare Corp.'s \$5.7 billion acquisition of HCA-Hospital Corp. of America, which will create the nation's largest hospital chain. The purchase fits with Columbia's push

machine tools, chemicals, consumer electronics, and computers. Zenith Electronics Corp. figures its prices for VCRs and TVs have dropped more than 3% a year since 1984. Its lost revenue from falling prices tops \$2 billion over the past 10 years, says CEO Jerry K. Pearlman.

Continued corporate bloodletting also means that disinflation is likely to be a fact of life for some time. In just the past few weeks alone, Woolworth Corp. said it plans to eliminate 13,000 jobs, four major drug companies reported a total of 11,000 layoffs, and Anheuser-Busch Cos. announced a 1,200 person cut. Overall, employment is about 3.5 million workers below what the job count would be if the U.S. were in a typical post-World War II recovery, according to Stephen S. Roach, economist at Morgan Stanley & Co.

Disinflation, like inflation before it, is taking on a momentum of its own. Pricing pressure leads to more restructurings, and restructurings lead to more disinflation. Every twist in pricing strategies for a low-inflation world ends up reinforcing the disinflation trend.

Today, prices are signaling companies to move beyond the slash-and-burn strategies of cost-cutting and reinvent their organizations to thrive in a world of low inflation. Low everyday prices—with vast everyday implications—are here to stay.

By Christopher Farrell in New York and Zachary Schiller in Cleveland, with Richard A. Melcher in Chicago, Geoffrey Smith in Boston, Peter Burrows in Dallas, Kathleen Kerwin in Detroit, and bureau reports



TRAVELS WITH CHARLIE BAZARIAN

The con man gulled even his prosecutor. Now, he's on the lam

No one ever accused Oklahoma City Federal Judge David L. Russell of being a soft touch. But having a daughter himself, his heart went out to another father, Charles J. Bazarian—the convicted swindler of savings and loan associations and of the Housing & Urban Development Dept. Bazarian said his sole wish was to attend his only daughter's wedding before heading back to prison, perhaps for good.

So on Aug. 31, after revoking Bazarian's probation for a laundry list of violations, Judge Russell set aside prosecutor's objections and granted the stocky, charismatic con artist a 24-hour furlough.

It was a ruling he would live to regret. Although Bazarian, 54, made it to Christina's Sept. 4 wedding, he never made it back to jail.

Two months later, Bazarian's trail remains just as cold as it was the morning after. But if Bazarian is gone, he is far from forgotten. In addition to a 15-year criminal legacy that has cost taxpayers and investors hundreds of millions, he leaves behind numerous unanswered questions about his relationships with some of the same federal law-enforcement officials who investigated and prosecuted him. Incredibly, court documents show, he even talked an assistant U.S. attorney who put him in prison into investing in an alleged stock-manipulation scheme. And an FBI agent once assigned to his case, it turns out, sought Bazarian's help with a friend's business.

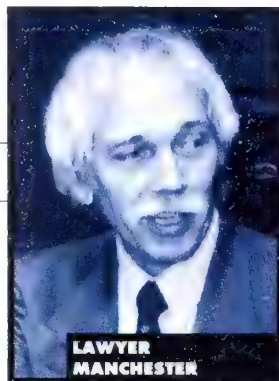
BEST-LIKED LIST? Some of the people closest to the silver-tongued Bazarian—a man who lived to deal—say he will not be easy to find. Dan L. Vogel, an FBI spokesman in Oklahoma City, says with a tinge of admiration: "He's the consummate con man, one of the best in the country. He has contacts all over the world. He could be anywhere."

For all his notoriety as a scamster, Bazarian has not yet made it to the FBI's list of the 10 Most Wanted or the U.S. Marshal's Top 15. But

judging from interviews with sources who knew him well, he surely belongs—if there were such a list—among the Justice Dept.'s 10 Best Liked. Indeed, his uncanny ability to earn the trust and friendship of nearly everyone he meets—including law-enforcement officials—has been his hallmark ever since he arrived in Oklahoma City 25 years ago. Says his 29-year-old son, Harry, who was also named as a defendant in a pending Oklahoma Securities Dept. stock-manipulation suit: "He had an eighth-grade education, but he was brilliant. He would never talk down to a person." Adds a Justice Dept. official: "Charlie said to me, 'You'll like me in 15 minutes.' He was right. He could walk up to anybody on the street and know what button to push."

On the surface, Charlie's life is something of a misbegotten Horatio Alger story. The son of an Armenian fruit-and-vegetable peddler who emigrated to the U.S., Charlie Bazarian was born and raised in Danbury, Conn. In 1968, he moved his wife and young family to Oklahoma City, and by the early 1970s was selling insurance. But he soon started getting into trouble. In 1978, he pleaded no contest to mail-fraud charges involving the sale of insurance and he was given a suspended four-year prison sentence.

Bazarian resurfaced in the mid-1980s



LAWYER
MANCHESTER



FBI AGENTS WEBER
(LEFT) AND VOGEL



PROSECUTOR AND
INVESTOR MYDANS

BAZARIAN'S BIZARRE BACKGROUND

EARLY 1970s After working as a short-order cook in Oklahoma City, Bazarian becomes an insurance salesman.

1978 Convicted on fraud

charges in connection with the sale of mail-order insurance. Gets a four-year suspended sentence.

1979 Begins buying HUD low-income properties.

1984 Using CD Corp., starts acquiring major positions in half a dozen firms.

1986 Indicted on charges in connection

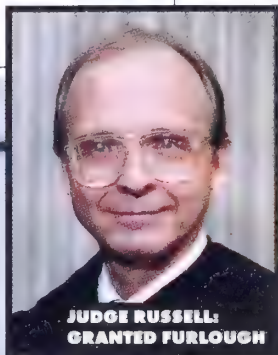
head of an Oklahoma City financial empire, CB Financial Corp., which invested in several S&L's in the Sunbelt. Borrowing liberally from banks, he became one of the largest operators of low-income-housing projects backed by HUD mortgages. Bazarian's lifestyle was lavish. With a net worth said to be \$32 million, he acquired a



SON AND FELLOW DEFENDANT HARRY

23,000-square-foot house in Oklahoma City with an indoor swimming pool.

By 1986, however, a host of law-enforcement agencies began closing in. In 1987, he was forced into bankruptcy and in 1989 landed in jail. Meanwhile, he pleaded no contest to Securities & Exchange Commission charges of penny-stock fraud. And Justice Dept. prosecutors charged him with skimming off money from HUD properties. The banks and thrifts that Bazarian had used as his personal piggy bank started failing.



JUDGE RUSSELL GRANTED FURLOUGH

He pleaded guilty to defrauding American Diversified Savings Bank in Costa Mesa, Calif., and was sentenced to five years in prison. That punishment was made concurrent with a two-year sentence he was already serving in Florida for his role in the 1987 collapse of a small Orlando institution, Florida Center Bank.

But his high living didn't completely end there. In part because of his role as a cooperating witness on some FBI fraud probes, Bazarian was transferred to the El Reno Federal Correctional Institute in Oklahoma, where he lived in a relatively



HUNTER: FEDERAL MARSHAL LAKEY

comfortable minimum-security compound outside the prison walls. He came and went with little scrutiny. FBI agents brought him bowls of spaghetti and buckets of fried chicken. A gourmet chef who loved Italian food, Bazarian often cooked for fellow inmates. Says his son Harry: "It was like one big party out there."

In return for helping prosecutors, Bazarian's sentence was reduced and in 1992 he was released from prison. Although on probation, he was not exactly repentant. He started soliciting investors for Remington Financial Group, a public real estate company. According to court records, Bazarian manipulated Remington stock. "He had good intentions," says Harry. "He never hurt anybody. He wasn't a rapist or drug dealer. He used pump-and-dump tactics. That's a white-collar crime. Heck, everybody does it."

Bazarian enticed even Assistant U.S.

Attorney Robert E. Mydans, who had successfully prosecuted him on S&L and HUD charges, into making a now-worthless \$6,000 investment. Says Mydans, currently with the U.S. Attorney's office in Denver: "The bottom line is that I invested money in good faith and lost my money. I feel I was a victim as well."

Other Justice Dept. officials were also interested in doing business with Charlie. Court records show that Edward J. Herbst, an FBI special agent, who at one time was on Bazarian's case, sought to pair Bazarian up with a business associate who bought bankruptcy paper at auction. The records don't indicate if any transactions were actually completed. Agent Herbst and the FBI declined to comment on the court transcripts. "He was close to the FBI," says Harry Bazarian. "They were good to him, and he was good to them. They would all come by for lunch and dinner."

NOT AMUSED. Other federal prosecutors were less friendly. By last August, just before the wedding, the law was closing in again. In hearings before Judge Russell, Assistant U.S. Attorney Robert G. McCampbell said he wanted Bazarian back behind bars for three years for his more recent activities. The judge agreed but caved in to the plea for the 24-hour pass, a humanitarian gesture that seemed reasonable to many courthouse observers. Yet it was also clear to his family and friends that Bazarian was not looking forward to returning to jail. Besides the three years on the earlier charges, he faced another possible 20 years if convicted on a money-laundering indictment said to be in the works.

At the wedding, Bazarian, wearing a tuxedo, posed for pictures and greeted guests. A few guests were perplexed that a convicted felon on a 24-hour pass was not chaperoned by federal marshals. "I thought it was bizarre," says Harry. After tears, kisses, and promises by family and friends of jailhouse visits, Bazarian left the reception. And that was the last anyone has seen of Charlie.

Federal agents apparently suspect the family may have been in on the escape: They have bugged the Bazarians' current, less prepossessing house. On Labor Day, Bazarian's wife, a medical student, invited over some classmates, one of whom brought along a rambunctious collie—also named Charlie. At one point, the classmate shouted to the dog: "Get over here, Charlie." Within 10 minutes, federal marshals, FBI agents, and the

U.S. attorney arrived at the house—guns at the ready. The feds were not amused.

Indeed, the whole episode is no laughing matter. "It's a major embarrassment," concedes a Justice official. The search for Bazarian, say gov-



COLLARED: WRONG CHARLIE

re of Florida Cen-
Is later found
begins serving a
sentence in Flori-
ank fraud.

1990 Pleads no contest to a charge of SEC penny-stock fraud. Sentenced to five years in Oklahoma prison for defrauding a California bank.

1992 The Oklahoma Securities Dept. launches an investigation into an alleged scheme involving stock fraud.

SEPT. 4, 1993 Obtains

a 24-hour pass to attend his daughter's wedding at his Oklahoma City country club. Disappears during reception.

DATA: BUSINESS WEEK

ernment sources, is worldwide. Other sources say that the U.S. Marshal's office, which is charged with chasing down fugitives, is butting heads with the FBI over the case, even though both agencies are part of the Justice Dept. Marshals are said to be furious over Bazarian's apparent friendships with FBI agents, who they feel lack enthusiasm for the search. "If any of these suspicions prove true about the relationships between Charlie [and FBI agents], things

are going to explode," says a law enforcement official. Bazarian lawyer Robert A. Manchester adds that it appears that "the government agencies involved are not cooperating with each other." Spearheading the search at the Marshal's office is veteran sleuth Phillip E. Lakey. Oklahoma City Agent-in-Charge James Weber is overseeing the case for the FBI.

All this has caused some people with a stake in the case, including Bazarian's

wife, to speculate that her husband is still be in the U.S.—and in the custody of the FBI. She thinks the FBI "probably has a deal with them." Retorts Agent Vogel: "The FBI has no motive to let Mr. Bazarian and would like him back in custody."

Whatever the case, Charlie, so far at least, seems to have pulled off his most audacious caper yet.

By Phillip L. Zweig in New York, and Tim Smart in Hartford

BANKING

THE FEDS MAY HAVE BOLTED THE DOOR TOO QUICKLY

Not-so-sick First City is suing the FDIC for closing it unnecessarily

When Philip Gottlieb bought 7,500 shares of preferred stock in First City Bank Corporation of Texas Inc. at about \$2.50 each last October, he thought he was buying into a fairly typical turnaround situation. After all, the Houston bank's bondholders had just agreed to a recapitalization plan that looked promising. But Gottlieb, who heads up a small limited partnership called the Lawrence Fund, was in for a pleasant surprise: Even though the bank was closed by regulators and the preferred shares fell to 1¢ a share in late December, the stock has since rocketed to \$38.50. Gottlieb realized a profit of nearly \$88,000 when he sold a third of his shares two weeks ago, and he's sitting on unrealized gains of about \$177,000—all for an investment of just \$19,243.

What's more, several traders and analysts believe even higher prices for the shares are possible before the year is out. The reason: First City is suing the Federal Deposit Insurance Corp. and its other regulators. Among other things, the bank is charging that regulators closed First City's bank units while the franchise still had real value—and shortly before First City was to present a recapitalization plan to its shareholders. First City President and Chief Operating Officer Robert W.

Brown says his company would have been worth \$1 billion if it had been allowed to remain in business, and First City is suing to recover that amount in damages, as well as punitive damages of \$2 billion.

It's highly unlikely that First City will get everything it's demanding in its suit. But on Oct. 8, just two weeks after First City filed suit, the bank and the government announced they would hold talks over the next 60 days. Some investors believe the mere fact that the FDIC and First City went into settlement talks so quickly means the agency will likely agree to a hefty settlement rather than go through a jury trial in First City's home state, and they think that a deal is possible by early December. The FDIC's director of resolutions, Harrison Young, says he can't comment on the agency's discussions with First City.

A big settlement could mean the bank's bondholders, preferred stock owners, and even common shareholders are in for still more gains. In the wake of its earlier recapitalization, First City found itself with much less debt than most banks, so any settlement would cover its bond obligations relatively easily. That's good news for equity investors: The preferred stock Gottlieb owns, for example, has a par

value of \$50 and accrued dividend of \$15 per share. The senior preferred stock, which is trading near its par value of \$100, has accrued dividend of nearly \$40 per share.

First City has had difficulties for years, having been recapitalized in 1988 with \$970 million in Federal assistance and a smaller amount of private investment. By 1992, though, First City was in trouble again. State and federal bank regulators moved in and closed First City's bank units on the last Friday in October, arguing that an early move would stop losses from growing and help government's resolution costs from ballooning. At the time, the FDIC board estimated that the closing would cost the government \$500 million.

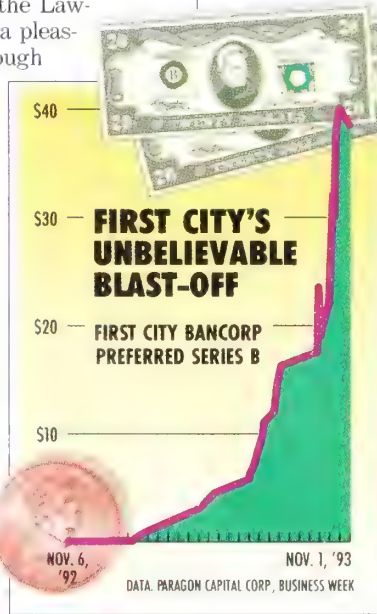
TRIGGER-HAPPY? Less than six months later, however, the government revised its estimate. After it received bids for First City assets from Chemical Bank and others, the FDIC announced the government would net a surplus of \$60 million. "I was astonished by how good a deal we'd gotten," says the FDIC's Young. "By offering the [First City] banks separately, we got better premiums."

First City alleges that the surplus is a lot higher than \$60 million—more like \$400 million to \$500 million, according to First City's Brown. "It looks like there was a major error of judgment on the part of the FDIC and the other regulators," says William L. Eddleman Jr., an analyst at Harris Securities Inc. He thinks the FDIC could settle for nearly \$400 million, which would be more than enough to cover the full value of First City's preferred stock.

A payment anywhere near that amount could be deeply embarrassing to the FDIC. It could suggest that the bank regulators were trigger-happy.

Plenty of things could still go wrong for investors. The FDIC could refuse to make a large settlement payment for one thing. First City's estimates of value could also be too high. But optimists among the crowd that is following the First City saga predict that instead of red ink, the FDIC will wind up with very red face.

By Kelley Holland in New York



PRUDENTIAL PLAYING HARBALL?

Opposing lawyers say it is unfairly fighting investor claims

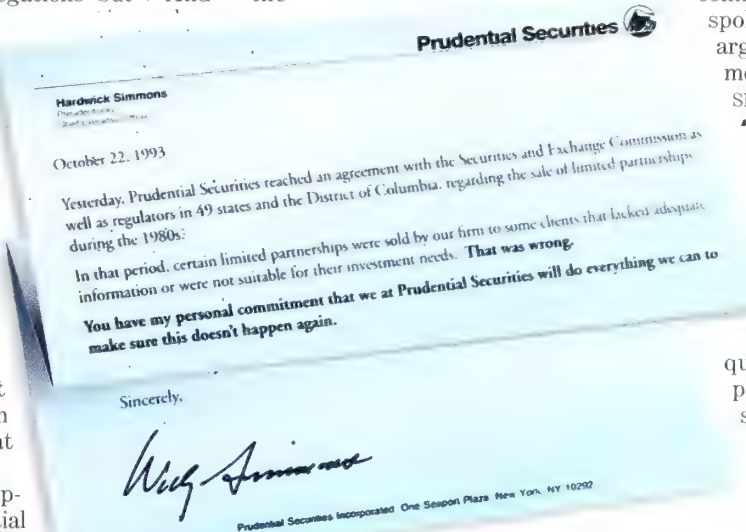
For the public record, at least, Prudential Securities Inc. seems ready to eat crow. On Oct. 21, the nation's fourth-largest brokerage settled Securities & Exchange Commission charges that it defrauded some of the 10,000 investors who bought \$8 billion in limited partnerships. Pru neither admitted nor denied the allegations but agreed to set up a fund of at least \$330 million to reimburse customers. Chief Executive Officer Richard Simmons took a full-page newspaper advertisement proclaiming that Prudential Securities would deal fairly with investors and that all claims would be settled in an "expeditious manner." The ad conceded that "certain limited partnerships were sold by our firm to some clients that did not receive adequate information and were not suitable. That was wrong."

In private, however, opposing lawyers say Prudential is showing a different face. In the arbitration hearings dealing with the same limited partnerships, the firm has been using what opposing lawyers claim are "harball" tactics to challenge investor claims. In one case in Dallas, according to documents, Pru's attorneys argued the arbitration panel should not be required to read the SEC findings. And in her Dallas case, just days after the settlement, a source claims a Pru lawyer even dismissed the SEC's finding of wrongdoing. "They're thumbing their nose at the SEC," says Douglas H. Hertz, a Dallas financial adviser and part witness for claimants.

PRISONERS. Of course, no one expects Pru Securities simply to dole out money to any Tom, Dick, or Harry with a claim. If Pru caved in on every investor's demand for compensation, its liabilities would swell far beyond the \$330 million floor. Yet if Pru Securities uses the same tactics in dealing with the SEC settlement claims that it has used in earlier arbitration hearings, investors could still face drawn-out, acrimonious battles. Investors have the

choice of signing on to the SEC-sponsored arbitration process or pursuing claims in court or private arbitrations.

Pru Securities, though, may find it harder to get tough with investors in the SEC settlement process. The firm doesn't want to undermine its public-relations efforts to repair its reputation. And the



settlement proceedings must be made public, unlike the intensely secret private arbitration process. Most important, the firm might risk angering Irving M. Pollack, the retired SEC veteran in charge of doling out the \$330 million pot. "The only way this is going to succeed is if Prudential understands that it must process claims expeditiously and fairly," Pollack says.

Pru's allegedly tough stance has been on display as recently as last month in a Dallas arbitration case brought by Theodore Rains. In 1989, Rains bought \$12 million of partnership interests from a former Pru broker, J. Frederic Storaska, who sources say was cited, without being identified, as a culprit in the SEC order. Rains is seeking \$3 million in lost principal and interest. Storaska's attor-

ney says his client did none of the things suggested in the SEC order.

Samuel A. Keesal, Pru's main outside attorney, is defending Storaska in the Rains arbitration. Keesal, also attorney for former Pru Securities CEO George L. Ball, says he argued in a closed-door hearing on Oct. 25 that "the claims against Mr. Storaska include transactions where no money was lost, or even transactions where profits were made."

More significant, one source says Keesal argued that the SEC settlement is meaningless and objected to Rains's attorney's attempt to get the SEC findings admitted as evidence. According to expert witness Schulz, Keesal said the SEC order is filled with nothing more than unfounded, unproven accusations of plaintiffs' attorneys. Keesal declined to comment. A Pru Securities spokesman denied that Keesal argued against the SEC settlement. "We're not disputing the SEC settlement in general."

"BIG PR CAMPAIGN." Even dealing with investors who file small claims with the National Association of Securities Dealers, Prudential has proved very combative, say opposing lawyers. The firm routinely tries to quash requests for discovery, delays proceedings with time-consuming motions, and has used as many as eight expert witnesses on one case to dispute claims. "They've been

IS PRU CONTRITE?

Prudential Securities said in full-page newspaper ads that certain limited-partnership sales practices, which the SEC alleged were fraudulent, were "wrong." But in closed arbitration hearings, opposing lawyers say, Prudential has taken a different tack. According to one source, an attorney for Prudential said the SEC charges were unproven.

doing this big PR campaign. But in closed-door proceedings, they are fighting investors tooth and nail," says Seth E. Lipner, a Long Island (N.Y.) attorney who represents more than 50 Pru investors. Says Pru: "It is simply not true. In the last 2½ years, we paid \$270 million in claims and dealt [with cases] as quickly and effectively as possible for the firm and the investor."

Regulators may not be pleased. Says Idaho Securities Commissioner Wayne Klein, who head-

ed a task force of state regulators that assisted the SEC's investigation: "If Prudential takes that attitude, I'd be angry and disappointed." Many of the thousands of investors filing claims under the recent SEC settlement could feel the same way.

By Michael Schroeder in Washington, with Leah Nathans Spiro in New York

CEO HOUGH: "I'M CONFIDENT WE WILL COME OUT IN GOOD SHAPE"

SALLIE MAE: STILL A BIG WOMAN ON CAMPUS?

It could find a niche in back-office services

What's to become of Sallie Mae, that Washington lass with extravagant tastes, now that her Uncle Sam may disinherit her?

Investors seem to see a dim future for Sallie, as the Student Loan Marketing Assn. is known. That's because, at the urging of the Clinton Administration, Congress this year decided that by 1998 the government should make at least 60% of all student loans directly. So Sallie, which doesn't make loans itself but buys them from the banks that do, is destined to lose more than half its potential market—and could lose the entire market if the government eventually takes over all college lending.

BRIGHT SPOTS. Not surprisingly, investors have pretty much given up on Sallie Mae. They have pounded the stock from 75 a year ago to about 44 today, just above what analysts think the company could fetch in a liquidation.

But Sallie Mae's future may not really be so bleak. For starters, though there'll be fewer loans, what there are can be larger. A law enacted in 1992 broadened eligibility and raised the undergrad loan limit by 33%, to \$23,000. Some analysts believe that will enable Sallie Mae to buy more loans in the

next few years than it has in the past—especially if the government can't expand its lending as quickly as anticipated. And if many banks exit the program—as expected—and sell off their portfolios, Sallie could boost its 39% market share even further.

What's more, the company believes it can find other niches where it can leverage its highly regarded back-office and financial expertise. Still, expanding beyond student loans would require an act of Congress. Lawrence A. Hough, Sallie Mae's chief executive, is upbeat about the company's prospects. "I'm confident we will come out in good shape," he says in an interview in Sallie Mae's art-laden headquarters in Georgetown.

Those who follow Sallie Mae closely are starting to agree. After slashing Sallie's 1994 earnings estimate as low as \$4.40 per share, many Wall Street analysts are raising their estimates for next year to more than \$5.60, even though Congress slapped Sallie with a 0.3% fee on all new loans purchased. Bear, Stearns & Co. ana-

lyst David Hochstim believes the company can boost its earnings at least for each of the next five years. "Wall Street analysts start putting together 1995 estimates, this stock will go into the red," predicts Montgomery Securities analyst Richard Fredericks.

But that's a far cry from 75. Company executives say that downdraft could have been avoided if Sallie had shown more financial savvy. Like other government-subsidized enterprises, such as the Federal National Mortgage Assn. (Fannie Mae), Sallie has paid out lavish salaries to top executives. Hough raked in \$2.2 million in 1991, for example. But while Fannie Mae mollified lawmakers by developing innovative lending programs for the poor, Sallie Mae made little effort to gain political goodwill. Instead, it bought back some 34 million shares—or 25%—since 1986 and paid down debt. Moreover, matters worse, bankers resented Sallie Mae's penchant for cherry-picking the choicest loans, leaving the dregs of the books of the banks.

Hough believes Sallie, with its \$1.2 billion in assets, has gotten a bum rap because of its own success. "It's hard to be loved when you're as big and successful as we are," he says. He contends that his hefty 1991 pay compensated for a flawed incentive plan adopted in the mid-1980s. While Sallie's earnings are expected to rise again this year, Hough expects his pay to stay about the same as it was in 1992, \$1.2 million.

TOPS IN THE OFFICE. Hough is looking for more profitable areas. He says he is willing to consider any market where he would exploit Sallie's back-office expertise, be it credit-card processing or health-care administration. In the next three years, Sallie plans to invest \$10 million in a document-imaging system that will enable Sallie to track a million pieces of mail it gets annually.

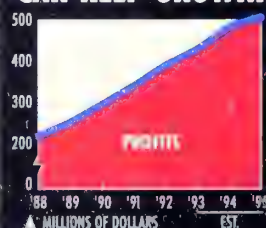
Hough thinks Sallie's best opportunities may lie with customers it already knows well—colleges. With many schools under pressure to cut their bloated overhead, Hough believes Sallie can provide back-office support for payroll, admissions, and financial aid. And he sees a chance to use the company's financial skills to provide specialized investment

banking services, such as helping colleges finance new construction.

But Wall Street is oblivious to Sallie's potential for growth. Sallie can start with friends where it counts—on Capitol Hill—investors are sure to benefit.

By Dean Fournier
Washington

SALLIE'S PROFITS CAN KEEP GROWING





Global Performance

Capital Raising

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in new capital raised for
clients worldwide in the
first 9 months of 1993***



CS FIRST BOSTON

One Firm One Name One Mission

Source: Securities Data Company

BY GENE G. MARCIAL

THREE SPIN-OFFS MAY GIVE WILSHIRE A TRIPLE CROWN

What do you do for an encore if your company's stock has more than doubled in just eight months amid an impressive turn in earnings momentum? Well, Michael Crow, chairman and CEO of Wilshire Technologies, a medical-products maker, thinks that the answer is to restructure his company into three units and then spin off parts of each. Crow intends to disclose such a plan shortly.

When Wilshire was featured in this column on Feb. 15, its Amex-listed stock was trading at 9 a share. Since then, it has vaulted to 19½. One New York money manager says that with the attractive promise of the spin-offs—and with earnings projected by some analysts to grow as much as 50%—Wilshire will be worth 40 over the next 12 to 18 months.

Three of Wilshire's proprietary products are in upbeat markets. One is a skin patch that gradually releases phenylpropanolamine hydrochloride (PPA), a widely used nonprescription appetite suppressant. This product, named Trimpatch, is already being shipped to Mexico and Venezuela, as well as Hong Kong, Korea, and Taiwan, notes veteran drug industry analyst David Talbot of Arnhold & S. Bleichroeder, a securities firm.

FEW SIDE EFFECTS. The transdermal delivery of medication is still in its infancy, "and it has explosive growth potential," says Talbot. The advantages of delivery through the skin, he says, include a potential to reduce side effects and achieve a consistent dosage for several hours. Trimpatch's market potential in the U.S. will depend on whether it qualifies under Food & Drug Administration rules as a medical device or as a drug. Wilshire will file for FDA approval next year.

Wilshire is expected to spin off to the public 25% of its Trimpatch business, to be called Wilshire Transdermal Products Co. This unit will generate sales of \$2.3 million in 1993 and \$12 million next year, Talbot estimates.

Wilshire's second line of products includes dressings that use "hydrophilic polymer" technology, which provides a moist environment for wounds to heal. The market for such products in the U.S. exceeds \$700 million and

WILSHIRE TECHNOLOGIES: SCALING THE HEIGHTS



amounts to more than \$1.2 billion overseas, says Talbot. The third product line includes clean-room equipment used by hospitals, clinics, and semiconductor makers. Among the products: Duraclean, a polyurethane-based glove that uses a polymer with a low potential for contaminating the work site, and Ultrasorb, polyurethane-based wipes and swabs that analysts say are acid-resistant and more durable than ordinary cotton or polyester products.

Talbot sees earnings jumping to \$1.24 a share next year from this year's estimated 48¢. Wilshire posted a loss of \$3.20 last year.

THE WINGS OF RYDER

The going has been rough for Ryder System since the summer. The Big Board stock has been hitting bumps, falling from 34 in late July to around 28. But the smart-money crowd has started buying in. They think the decline is mainly due to some confusion over Ryder's plan to spin off its aviation-services division.

Indeed, the stock started slumping after the nation's largest lessor of trucks announced the spin-off in July. Ordinarily a spin-off is regarded as positive by investors. But there have been doubts as to how much revenue the unit could generate as a stand-alone company, considering the weakened airline business. Ryder is expected to distribute one share of the new company, to be called Aviall, for every four shares of Ryder.

Aviall should trade at 12, figures analyst Paul Schlesinger at Prudential

Securities. He estimates that the new Ryder stock is worth "upwards of 28 share." Aviall shares, which at should be worth 3 in Ryder stock, give Ryder a total value of 31—and that's conservative, says Schlesinger. He sees the new Ryder earning \$2.10 in 1994 up from an estimated \$1.80 in 1993. Aviall should earn \$1.30 a share. Schlesinger has raised his opinion on Ryder to "moderately attractive" from a hold.

One money manager at a New York bank believes the revamped Ryder stock is worth much more than 28. Should hit the mid-30s as the economy continues to strengthen, he says. He also thinks Aviall's stock could be worth 17 as the major airlines "outsource," or subcontract, their engine-pair work to other companies, such as Aviall, the largest independent engine service outfit.

A SMART-LOOKING S&L GETS THE EYE

Sovereign Bancorp isn't one of your ordinary thrifts. Merrill Lynch bank analysts Jerry G. and Nancy Hazelrigg describe the Wyomissing (Pa.) savings and loan as "an excellent company, and certainly one of the more successful in the thrift industry." But they and most other analysts have posted a "hold" opinion on the stock because at 13 a share, it's trading at valuations much higher than other thrifts.

Some big investors who are buying the stock, however, are listening to other buzzings: Whispers are that Sovereign Bancorp, Pennsylvania's largest thrift, will merge or be acquired by a major regional bank. One Pennsylvania fund manager is betting that a deal will emerge this year at 20 a share.

A few analysts—even those who aren't pounding the table on Sovereign—concede that the company is likely takeover because of the high quality of its assets and low-cost operations. Sovereign is "well-positioned to benefit from the current consolidation in the thrift industry," says Joseph J. son, an analyst at Montgomery Securities. And Tom O'Donnell of Prudential Securities says Sovereign, with 78 offices in Pennsylvania and New Jersey and assets of \$4 billion, "is an attractive buyout candidate." Corporate insiders have purchased 700,000 shares over the past 12 months. President and CEO Jay Sidhu says he isn't surprised that some banks are interested in acquiring Sovereign.

T'S THE MONEY, TUPID

ar campaign aides are making pots of cash as consultants—while still advising the President

It was a few weeks after Inauguration Day, and delirious Democrats were still celebrating. But not James Carville, Paul E. Begala, Mandy Grunwald, and Stanley B. Greenberg. The Clinton campaign veterans sat in a Chicago hotel room, looking through a one-way mirror while voters in an adjoining room talked about their frustrations with the nation's health system. When the focus group ended, the four were convinced that the cautious approach some Democrats were taking on health reform was a mistake. Voters knew plenty about the intricacies of the health system and wanted radical change. "That knocked my socks off," recalls Begala. "It was a sign to understand that the president was right in wanting to move more forcefully." Back in Washington, Greenberg conceded the message directly to the Oval Office. And that helped persuade Bill Clinton to seek the sweeping social reform of the New Deal.

THE WORLD. Nearly a year later, the four still exert enormous clout at the White House. Each full-time White House staffer carries the special security pass that grants entry to 1600 Pennsylvania Ave. But none, by the way, is on the White House staff. The top aides earn \$125,000. Indeed, group members earn far more as consultants to the Democratic National Committee. This arrangement permits them to act as lobbyists while working for presidential candidates, corporations, even foreign political parties. Never before have so many key political advisers plied their trade as free-lancers—freed from restrictive conflict-of-interest rules that govern Administration appointees. This dual role worries government watchdog groups. The four "are operating in an ethical netherworld," contends S. Miller, director of the Center for Responsive Politics. "The fact that

they have a close relationship with the White House while maintaining outside clients raises the specter of conflict of interest." Adds Charles Lewis, head of the Center for Public Integrity: "The DNC and its advisers have become an adjunct wing of government—with no accountability to government."

The doubts haven't stopped Carville, Begala, Grunwald, and Greenberg from becoming the hottest

one Democratic activist: "People are buying a name and a connection."

One person who isn't complaining is Bill Clinton. He constantly enlists the inside-outsiders in his "permanent campaign." The four helped direct the fight for the President's economic plan, mopped up after early stumbles over Cabinet appointments, and provided brilliant image counseling for Hillary Rodham Clinton. More recently, they developed the marketing strategy for health reform, with its alluring emphasis on lifetime security. The four are "conceptual thinkers, each with a piece of the whole," says Samuel L. Popkin, a University of California-San Diego political scientist who worked on the campaign. "Stanley knows how to think about an issue, Paul knows how to talk about it, Mandy knows how to picture it. And James just nails it."

Obviously, each one of the four could have had top White House posts. Although Campaign Manager David C. Wilhelm was sent to head the DNC, most war-room commandos, such as George R. Stephanopoulos, went to the White House.

ROCKY RELATIONS. Critics feel that by staying outside, the four deprived Clinton of a heavyweight staff. Indeed, while Carville, Begala, Grunwald, and Greenberg ply their private interests, White House operations have been left in the hands of such relatively inexperienced aides as Chief of Staff Thomas F. "Mack" McLarty III, a former Arkansas utility executive, and Stephanopoulos and his fellow thirtysomethings. Even with the arrival of image counselor David R. Gergen, who has improved operations, few think the setup works well.

Subcontracting for political expertise is unusual. It was supposed to be a testament to Clinton's masterful political skills. But judging by the President's

MANDY GRUNWALD

VITAL STATS 36. New Yorker (father Henry, ex-Time Inc. topsider, later became Reagan's ambassador to Austria). Harvard University degree. Favors designer suits. Single.

PHILOSOPHY Forget the networks. Campaigns will be won on cable, satellite, radio, programs like *The Arsenio Hall Show* and *Larry King Live*.

CAREER PATH Started with New York's David Sawyer, then joined mediameister Frank Greer. Hillary preferred her campaign spots. Quit Greer after election to start hot media shop, Grunwald, Eskew & Donilon.

BOTTOM LINE DNC pays \$15,000 a month, plus a percentage of media bought. Controls \$3 million ad budget as media chief for DNC health-care blitz. Controls \$5 million war chest for USA★NAFTA, the pro-treaty business group. Key clients: Governor Jim Florio (N.J.), Senators Frank Lautenberg (N.J.), Joseph Lieberman (Conn.), Daniel Moynihan (N.Y.). Also, is selling Clinton's health-security concept and advising Hillary.



hired guns in politics. "Every Democrat running for high office next year will call one of these people," says Republican consultant Jay Severin III. "Hire someone with their track record, and you look more like a winner than you did the day before." But their popularity raises a tantalizing question: Are the Fab Four's services being sought because they're good or because they're close to Clinton? Says

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IBM 990	\$147,800	126.0	\$1,173
HP 160	\$136,530	82.0	\$1,665
DEC 4000/610	\$131,728	94.6	\$1,392

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rocky relations with Congress, there's a downside to the arrangement. "Clinton has a weak staff, which gives the outsiders huge influence," says a Democratic pol. "By listening to them so much, he reinforces the perception that he's a totally political creature." Nonsense, replies McLarty. "Their work is a real plus. When you're in the White House, you lose touch with the real world. They add a fresh perspective."

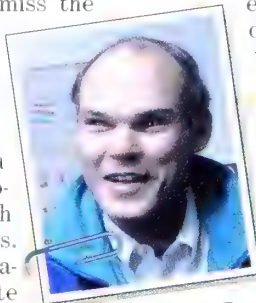
Group members dismiss the notion that Clinton needs them 'round the clock. But they fret about possible conflicts. To insulate themselves, the quartet made a pact: No corporate lobbying and no deals with foreign governments. "We asked for information from the White House and DNC counsel about laws that governed us," says Grunwald. "We found out there were very few. So we decided to make our own rules." The Clintonites see no problem with self-policing. Says Wilhelm: "They come to me when there are questions. These are folks with good judgment."

YANKED PASS. Still, there are doubts. For starters, the fact that group members have White House passes troubles some—especially because a few Friends of Bill have been controversial. New York attorney Harold C. Ickes had his pass yanked after he was hired by companies to lobby against expanding a tax break for investment in Puerto Rico. New York lawyer Susan P. Thomases, a Hillary chum, surrendered her pass after McLarty raised questions about her corporate clients.

By past standards, Carville, Begala, Grunwald, and Greenberg merit passing grades for handling potential conflicts. Pollsters have traditionally worked part-time for Presidents, and Greenberg—unlike Carter guru Patrick Caddell and Reagan pollster Richard Wirthlin—has refrained from rapid expansion fueled by corporate work. Carville and Begala advise just a handful of campaigns, though that's likely to change in 1994. Grunwald's firm is growing fast but still concentrates on politics. "The President," insists Carville, "is happy for our success." Still, it's obvious that group members are struggling to juggle

their business and political interests. **THE RED-HOT CHILI PEPPERS.** The team of Carville & Begala is not found together often these days. Begala spends hours at the White House polishing Clinton speeches. He also travels with the President to major events. "We get along," Begala says. "I try to make him laugh and keep him focused."

Carville seems intent on grasping the fleeting brass ring of celebrity. "I've never made any money in my life. If I don't make it now, I'm never going to," he says. Carville and his fiancée,



JAMES CARVILLE

VITAL STATS 49. Raised in bayou country. Law degree, Louisiana State. Prefers jeans, even on formal occasions. Engaged to Mary Matalin, former Bush campaign aide.

PHILOSOPHY It's the jugular, stupid.

CAREER PATH With Paul Begala, managed campaigns for many long-shot contenders for statewide office. Most lost. Exceptions: Governors Robert P. Casey of Pennsylvania and Zell Miller of Georgia, and Senator Harris Wofford of Pennsylvania. When Clinton's campaign needed an attack dog, Miller suggested Carville.

BOTTOM LINE DNC pays \$15,000 a month to advise Clinton. Other clients: Miller, Wofford, New Jersey Governor Florio. Makes up to \$15,000 for pep talks to business groups, possibly netting \$1 million this year. Shares a \$925,000 book advance with Matalin.

PAUL E. BEGALA

VITAL STATS 32. New Jersey-born, Texas-bred. University of Texas. Favors boots and jeans. Married, one child.

PHILOSOPHY I'll do the words, James' gunfire will provide the music.

CAREER PATH Co-managed most of Carville's crusades. Speechwriter for '88 Presidential bid of House Majority Leader Richard Gephardt (Mo.). Traveled with Clinton during campaign.

BOTTOM LINE DNC retainer, plus share of campaign-management fees, such as Florio's \$30,000-a-month payment. Seeking to branch out abroad, winning work (with Carville) to reelect Greek Prime Minister Constantine Mitsotakis. Result: Greek tragedy, as socialists won big. Touches up the President's major speeches to inject emotion into Clintonian wonkism.



Mary Matalin, who was a top aide to George Bush's 1992 campaign, are going a long way toward that goal by writing a book on the campaign. Co-publishers Random House Inc. and Simon & Schuster Inc. paid them a \$925,000 advance for their tale, due in the bookstores this spring. With the writing done, Carville is often on the road, earning up to \$15,000 for pep talks on the part of winning politics. "I'm big on the hot-air circuit," he shrugs. "I'm a hater."

In his guise as the Ragin' Cajun, Carville is a defender of the downtrodden. But now, his typical audience is a business group, which Carville describes as "150 rich white guys who quote Rush Limbaugh to me." Past clients include the American Hospital Assn., the National Restaurant Assn., and McGraw-Hill, publisher of BUSINESS WEEK. Is he taking corporate cash? Carville concedes "most of these companies are not riddled with Democrats," but denies that he's peddling access. "Representation of my influence are exaggerated."

That didn't stop the restaurateur from making a pitch to him. Last April the group invited Carville to speak. At the time, the White House was probing further limits on the deductibility of business meals. Upset members buttholed Carville. Says spokeswoman Wendy Webster: "They hoped he would bring back a message to the President. Carville portrays himself as an entertainer, but not everyone agrees."

Carville & Co. "are very powerful people," says a Democratic activist. "What do they think people are buying?"

Except for lectures, Carville & Begala don't accept business clients. "When I advise the President that a beer is a bad idea, he doesn't have to worry that I work for Budweiser," says Begala. Carville claims his policy "has cost us \$1 million." The bids come from companies, law firms, houses, interest groups, even foreign governments.

As for C&B's political candidates, Begala insists that "we can't do anything to help clients at the White House." As evidence, he cites the two-week stretch he served as a White House temp during the budget fight. "When New Jersey, Georgia, and Pennsylvania

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Government

[states where C&B has clients] came up, I left the room." Moreover, Carville adds, by aiding endangered Democrats such as New Jersey Governor James J. Florio, the pair is also helping Clinton.

C&B won't represent foreign governments in the U.S. But they see dollar signs in campaigns abroad. The duo recently handled the reelection bid of Greek Prime Minister Constantine Mitsotakis—badly, as it turned out. Mitsotakis was trounced by Socialist Andreas Papandreou, and C&B left Greece shaken by the death threats they received.

DRIVING MISS MANDY. Of all the inside-outsiders, Grunwald has the most complicated task—juggling White House demands and her media firm. Business is booming for Grunwald, Eskew & Donilon, which makes ads for state and congressional candidates. Recent business clients include cable giant Tele-Communications Inc. GED made ads for local cable operators battling TV stations over programming rights. Meanwhile, Grunwald has become a key player in selling health reform and the North American Free Trade Agreement.

Grunwald has a talent vital to Clinton: She can translate the most convoluted wonkisms into terms Joe Sixpack can understand. "On health reform, Mandy spent hours refining the language, fine-tuning the names of things, so people would get it," says White House Communications Director Mark D. Gearan.

Of the Fab Four, Grunwald is the most plugged in to the *zeitgeist*. She convinced Clinton to appear on MTV and *Arsenio*. "Mandy's immersed in popular culture," says partner Carter Eskew. "A lot of people in our business think in words. She thinks in pictures."

Grunwald's firm has become a magnet for politicians—so much so that some contests pose potential problems for Clinton. For instance, GED is committed to handle Alabama educator Paul R. Hubbert's expected primary challenge to Governor Jim Folsom Jr. next year. The DNC has a policy of never backing challengers in primaries, but Grunwald says Hubbert is a long-time Eskew client who shouldn't be cut off. Confesses Wilhelm: "It is a little awkward."

Other GED clients have differences

with Clinton. The White House fears that when Pennsylvania Senator Harris Wofford runs for reelection next year, he may trumpet his opposition to NAFTA. In New Jersey, Senator Frank Lautenberg may boast of his vote against Clinton's tax-heavy budget. Would Grunwald produce such ads? "I don't consider it a problem," she says. Still, she adds, she doesn't think it's good politics to spend a lot of time attacking this President—what's-his-name in Texas." The real threat is to ousted Senator Bob Krueger, whose Clinton-bashing campaign flopped despite help from—guess who?—Carville & Begala.



STANLEY B. GREENBERG

VITAL STATS 48. Raised in Washington (D.C.) suburbs. Harvard PhD. Favors rumpled tweeds. Married to Representative Rosa L. DeLauro (D-Conn.).

PHILOSOPHY Democrats who don't tap into economic fears of blue-collar workers are destined to lose.

CAREER PATH Taught at Yale. His seminal 1985 study found that middle-class voters were abandoning Dems because of the party's identification with minorities. Started polling business with Celinda Lake; went solo in December to concentrate on Clinton.

BOTTOM LINE \$50,000 monthly DNC fee, plus cash for extra polling (January-to-June DNC payments: \$871,294). Democratic Leadership Council pays \$150,000 for big surveys. Other political clients: Senators Jeff Bingaman (N.M.) and Lieberman (Conn.); Michigan Representatives David E. Bonior (anti-NAFTA crusader) and Bob Carr.

DATA: BUSINESS WEEK

Although Grunwald insists that DNC work is a small part of her business, it's lucrative. The firm pays her \$15,000 a month. In addition, the DNC compensates her firm at a standard rate—around 15%—for its media purchases. In May and June, she made more than \$113,000 in DNC consulting fees, according to the Federal Election Commission.

Grunwald also handles media for the DNC's national health-care blitz. The campaign has an ad budget of \$3 million, most of it raised from the pesky corporations the inside-outsiders say they want to avoid. GED also has a fat contract to make ads for USA*NAFTA, the business coalition lobbying for passage of a trade pact with Mexico. Media buyers \$5 million. A half-dozen firms were asked to compete, but everyone expected



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☐ Yes ☐ No

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5. Does your entire organization know what your customers want?

☐ Yes ☐ No

A customer orientation has limited value unless it's embedded in the very fiber of an enterprise—at all levels, and at every place that directly or indirectly impacts the customer.

6. Is your information strategy focused on helping you hear what customers and markets are trying to tell you?

☐ Yes ☐ No

The next best thing to reading your customers' minds is listening to what they're saying. But unless you're constantly tuned in to customers' signals, you're missing messages that could guide you to greater results for your business.

7. Can your organization respond quickly to what customers and markets are telling you?

☐ Yes ☐ No

When the flow lines of your information system are not within your customers' reach, you won't always sense when opportunity knocks. But even if you do, getting the message is not enough. If you can't reply rapidly to market cues with information, products and services, revenue opportunities are lost.

8. Does your information strategy enable you to proactively deliver information to your customers?

☐ Yes ☐ No

Many business plans underestimate the power of information to build customer relationships. But imagine the advantage of an information technology strategy that transforms information into customer-generating, revenue-generating fuel.

9. Are the full capabilities of your organization accessible to your customers at all your field locations?

☐ Yes ☐ No

An office. A branch. A retail site. To a customer that's your company. One small part of the whole. Which is why you need to leverage your entire organization by extending its capabilities to each point of customer contact.

10. Does your information strategy reflect the bottom-line importance of customer service?

☐ Yes ☐ No

Business is built on customers. Without them there is no bottom line. Government is also built on customers, the public. And whether you're in the business of commerce or the business of government, no objective of an information strategy is more fundamental than enhanced customer service.

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bottom-line results. As customer service rises to a higher level, so will your ability to make new customers, build your relationships with them, and generate revenue.

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ment. And we'll apply our industry-leading expertise at ensuring that an information strategy pays off, not merely shows off.

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1: to make a company more responsive to its customers and better able to attract new ones **2:** to customerize an organization's information strategy, e.g., to extend systems capabilities to field locations and other points of customer contact and support **3:** what Unisys Corporation does for a growing roster of companies, and government agencies, worldwide **syn** see CUSTOMER SERVICE, COMPETITIVE EDGE, BUSINESS-CRITICAL SOLUTIONS, REVENUE GENERATION

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ed Grunwald to walk off with the cash.
Some competitors think that's the deal.
"To the victor go the spoils," says a
GOP adman. Others disagree, noting
Grunwald was among the Clinton
who urged delaying the trade pact
fear it would clash with health reform.
"Everyone knows she's against NAFTA,"
grouses a Democratic consultant.

Is Grunwald selling something
doesn't believe in? "I have absolutely
personal views on NAFTA," she rep-
"My job is to make sure my client's
his views accurately described. I un-
stand the President's views. And
understand why Senator Wofford
others oppose it."

BEARER OF THE SCROLLS. To meet pol-
Stan Greenberg is to meet a truly hap-
man. Ever since his college activist days,
Greenberg has only wanted to work for
reformist Democrats. When he met Clinton,
ton, who inhales polls like Big Macs, the
two clicked instantly. Now, Greenberg
zips in and out of the White House for
his latest readings of the President's
performance. "Clinton is remaking the
country," the pollster says approvingly.
"I organized my DNC contract so I can
spend all my time working for him."

Actually, Greenberg Research Inc. does
polls for long-standing clients: Sen.
Jeff Bingaman (N.M.) and Joseph R.
berman (Conn.), plus Michigan Rep-
resentatives Bob Carr and David Bonior.
Working for Bonior is another jargon-
bit of inside-outism, since he's leading
anti-NAFTA forces. Greenberg says a
associate is handling Bonior. Nor is he
concerned about the free work he does
for the African National Congress.

Despite his firm's demands, Greenberg
meets White House aides nearly
every day and gives Clinton a weekly
briefing on his standing with voters.
"Stan's the one who has to go in and
'Mr. President, you're dropping like
hot rock,'" says Begala.

Although their circumstances differ,
Clinton's inside-outsiders insist they
trying to keep their private pursuits
from entangling with Clinton's. "Just
them by what their counterparts do in
the past, and you see a higher stan-
dard," says party activist Mark Siegel.

Perhaps. But given their boss's push
to rid Washington of influence-peddling,
even some CBGG admirers wonder
whether they shouldn't take an ethical
step. "They should disclose their clients
and their fees," says a top Democratic
consultant. "That's a commonsense way
to avoid potential problems in the future."
At that, Republicans merely grin and
edly and whisper that old Watergate
train: "Follow the money."

By Susan B. Garland and Lee W. White
in Washington

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FOR NOW, THE NAFTA GAME IS FOR THE GUTSY



The vote on the North American Free Trade Agreement is barely a week away. While the consequences of Congress giving free trade a thumbs down is subject for debate, few doubt NAFTA could electrify Mexican markets and handsomely reward those willing to take on the extra risk of investing in a developing country.

Already investors are betting on the side of NAFTA and putting money not only into Mexican stocks but into equity and bond mutual funds that should benefit from passage. Brokerage houses have Mexican stocks on their buy lists, and six fixed-income

funds designed to play off expected increased stability in Mexico's bond markets have been launched this year alone.

NAFTA would phase out cross-border tariffs between Mexico, Canada, and the U.S. The latter two countries have had a free-trade agreement since 1988, and that pact would not be affected if Congress votes down NAFTA or if Canada pulls out of the new accord, as the newly elected Liberal Party has threatened. NAFTA really concerns trade with Mexico, and with the U.S. economy 20 times the size of Mexico's, the impact will be most dramatic south of the border.

President Clinton is still scrambling to find enough votes in the House of Representatives to see NAFTA through. So any investor contemplating playing off the Nov. 17 vote must consider several possible outcomes.

GOOD BUYS. Under the first scenario, NAFTA passes, triggering more foreign investment in Mexico and consolidating economic reforms that have been under way for the last seven years. Mexico's Bolsa de Valores, which has grown from 100 points to 2,000 in the last five years, scales ever higher. October has already brought a "Yes-NAFTA rally" as optimism that

the pact will pass mounts, says Jacques Levy, deputy president of Banco Nacional de México, the country's largest private bank. However, because of the relative uncertainty over the vote, the effect of the agreement on investing has not yet been factored in, and Mexican stocks are still relatively cheap.

The construction industry in Mexico would be among the first to benefit as private owners in both countries have launched capital projects. Cement companies Apasca and Cementos Mexicanos are prospering, says José Luis Gómez Pimienta, president of Mexico Fund, a closed-end fund based in Mexico and listed on the New York Stock Exchange. New developments will also spur the growth of Grupo DESC, which manufactures auto parts, and the phone monopoly Teléfonos de México, he says.

As new investments and jobs kick in and the standard of living improves in Mexico, consumer spending will flourish. Soft-drink companies such as Coca-Cola FEMSA benefit, as will tortilla maker Grupo Industrial Maseca and breadmaker Grupo Industrial Bimbo.

Many Mexican companies, especially small-scale manufacturers, are expected to suffer as American companies with worldwide buying power flow across the border. Jane Siebels-Kilnes, portfolio manager for Templeton Worldwide. Smaller U.S. companies in trucking or other goods manufacturing may grow rapidly by taking advantage of free trade in Mexico, but "you have to go do research the company and if they have any plans in this area," Siebels-Kilnes says.

Large U.S. corporations that have already formed strategic alliances with Mexican counterparts will benefit from free trade, but their Mexican ventures will be such a small part of the companies' worldwide volume that their bottom line won't be dramatically affected. A more aggressive strategy would be to invest directly in Mexican owners or subsidiaries, such as Coca-Cola Femsa, Cifra (signed with Wal-Mart stores), Kimberly-Clark de México, and Sears Roebuck México, says Arturo Acevedo, director of research at Vector, a Mexican financial services firm that is opening a subsidiary, Vectormex, to serve investors in the U.S. (407-5506).

longer period of time. The Bolsa would take a temporary hit, probably falling about 15%, which would provide a buying opportunity for the construction and consumer-based stocks. The Mexican government would protect the peso from going into a tailspin, raising interest rates to prevent the flight of foreign capital, says Wayne Lyski, executive vice-president of Alliance Capital Management, which manages the North American Government Income Trust. Most analysts are betting that Mexico could bounce back fairly easily from a "no" on NAFTA, because the country already has largely opened its economy to foreign competition.

However, there is a third scenario to be reckoned with:

The U.S. stock market would also suffer, since Clinton's failure to get NAFTA through Congress would betoken weakness. "The market doesn't like it when the President is weak, especially if he can't get economic priorities through," says Hoey. Free-trade negotiations all around Latin America could come unglued—a long-term negative to the U.S. economy, says Siebels-Kilnes.

Still interested in making a NAFTA play? There are several options open to those who dare. If you have a company in mind, you can buy American depositary receipts through your broker. Although they are traded in dollars, they are subject to currency risk if the peso is devalued. Or you can diver-

this year, through Oct. 8. William Truscott, assistant portfolio manager of Scudder's Latin America fund, recommends that investors use dollar-cost averaging, investing the same amount every month so as to buy more shares when prices are lower and fewer on an upswing.

GETTING TOO GREEDY. On the fixed-income side, there are now eight funds available that buy corporate and government debt in Mexico, the U.S., Canada, and South America. Pilgrim's All Americas Government Income Trust, which opened to investors on Nov. 1, will put 25% of assets in high-yielding Mexican debt. Although these bond funds should be less volatile than their equity counterparts, they are still far

THREE SCENARIOS INVESTORS SHOULD CONSIDER

NAFTA PASSES: MEXICO BOOMS

- ▶ Mexican stock market thrives as foreign investors take advantage of high growth estimates, low price-to-earnings ratios, and stable exchange rates.
- ▶ Increased political and economic stability make Mexican bonds a safer investment and its debt is raised to investment grade.
- ▶ Some Mexican companies are hurt by increased competition so only careful stock-pickers are rewarded.
- ▶ U.S. markets see NAFTA passage as a positive sign and get a slight boost.

NAFTA FAILS: MEXICO WEAKENS

- ▶ The peso begins to lose value—reducing the value of foreign capital and discouraging investors.
- ▶ Interest rates rise to attract foreign capital, acting as a drag on the economy, but keeping the peso stable.
- ▶ The Mexican market takes a short-term hit, creating a buying opportunity, and then recovers.
- ▶ U.S. companies do not grow with the speed they would have with a major new trading partner.

NAFTA FAILS: MEXICAN MELTDOWN

- ▶ Mexican government proves unable to control the devaluation of the peso, investors flee, and hard-won local price stability is threatened.
- ▶ Confidence in President Salinas' leadership is eroded, perhaps leading to a period of political instability.
- ▶ U.S. markets stumble as failure to pass NAFTA is taken as a sign of President Clinton's weakness.
- ▶ The U.S. economy suffers when a "No NAFTA" vote leads to a breakdown of the tariff and trade negotiations with the entire Latin American region.

DATA: BUSINESS WEEK

Mexican government bonds, now hovering around 10%, would fall to 10% in the event that follows the passage of NAFTA, and inflation would drop from its current annual rate to 5% in 1994, predicts Banco Nacional de México's Levy. The reduced inflation and high yields relative to U.S. rates would make Mexico great buys, especially if Mexico gets investment-grade status.

MELTDOWN. The second scenario assumes that even if NAFTA fails, positive momentum in the Mexican economy continues and many of the benefits of a yes vote will occur anyway, albeit over a

The positive chain of economic events in Mexico would be reversed and lead to a "full-scale Mexican meltdown" as foreign investors, who are already nervous, would withdraw, forcing the devaluation of the peso, says Richard Hoey, chief economist at Dreyfus. He puts the odds at 1 out of 3 that this would happen if Congress rejects NAFTA. The government could do little to protect the currency if the flight of foreign capital is too swift, says Levy. Then, President Carlos Salinas de Gortari would be discredited, and that might usher in a period of political instability.

sify a bit more by buying a closed-end fund that invests solely in Mexico. There are three available on the NYSE: Mexico Fund (212 750-4200), Emerging Mexico Fund (800 553-8080), and Mexico Equity & Income Fund (212 667-5018). Each has returned more than 42% in the past year, and Mexico Fund, the only one with a five-year track record, has averaged 40% a year since 1988.

A handful of equity funds specialize in Latin America. Scudder Latin America has returned 44%, Merrill Lynch Latin America B has yielded 29%, and G.T. Latin America Growth has brought in 27%

riskier than most fixed-income funds.

Whatever method you choose, only the percentage of your portfolio that you've set aside for the riskiest strategies should be invested in Mexico. "People have a tendency to get greedy if they think there is a score waiting to be had," says Robert Glovsky, a Boston financial planner. He recommends aggressive investors put only about 5% of their portfolio into Mexico. Although Mexico holds potential rewards for those willing to jump in now, Glovsky suggests you wait until the vote to make your NAFTA play. *Amey Stone*

Personal Business

Health

WAGING WAR ON THE COLD FRONT

Put those shorts away and face facts: Winter's approaching, and the cold season is upon us. With three virulent flu strains and the usual 200 or so types of cold viruses circulating, resign yourself. You probably won't escape unscathed.

Indeed, one-third of all Americans have had a cold in the last two weeks, says the National Institutes of Health. Colds are the most common excuse for missing work. And no, modern medicine still hasn't found a cure. But there are ways, old and new, that can make life a bit more bearable during the week to 10 days it takes a cold to run its course.

An increasingly popular notion is to peg treatment to your internal clock. Doctors

have long known that the body's circadian rhythm affects everything from moods to temperature and respiratory factors. It's why your cold feels worse when you wake up and when you wind down for the night.

HOT SOUP. A new once-a-day decongestant may help: Efidac/24 is a non-prescription drug from Ciba Consumer Pharmaceuticals, approved by the Food & Drug Administration last December. It releases medication throughout a 24-hour period so it's sure to be in your system when you need it most. "You're better able to make decisions about the workday when your cold medicine is still working in the morning," says Dr. Jay Grossman, head of the allergy division at Albany Medical College.

Strategically timed tradi-

tional remedies can also give relief. Drink hot tea in the morning and let Mom send over some chicken soup at night. "It's very important to force liquids" to prevent dehydration, says Grossman. "And the warmth makes it feel better going down." Aspirin, acetaminophen, and ibu-

profen go a long way in easing aches and fever.

But don't believe everything you hear. Catch a chill, no matter what time of day it is, will not necessarily catch you a cold. And the jury's still out on the merits of vitamin C.

While the average person will get only two colds a season, households with children, expect three to six. And since cold viruses can live outside the body for up to two hours in schools and offices, become breeding grounds. The best

vention? Wash your hands and those of your kids often since viral infections are transferred from hand to hand or mouth. And when you come down with the dreaded sniffles anyway, mind your internal clock. It's the reminder of what you need to do and when. *Julie Tien*



TIME MEDICATION SAYS IT
KICKS IN WHEN YOU'RE FEELING LOW

With stock indexes hitting record highs, investors are wondering whether it's time to cash in their holdings. But the problem with bailing out when the going is still good is that you may forgo future gains. On the other hand, a winning stock could fizzle, wiping out profits or causing losses.

A way around this dilemma is to use a protective stop order. This often-overlooked strategy involves placing an order with your broker to sell shares in a particular stock automatically if the price slips to a predetermined level. The order itself costs nothing; you just pay trading commissions. "Stop orders not only limit losses but can lock in profits," says Douglas Raborn, who manages \$90 million for individuals and retirement accounts at the Delray Beach (Fla.) investment firm bearing his name. Say you

Smart Money

HOW TO KEEP YOUR PORTFOLIO FROM PLUNGING TOO FAR

purchased Conner Peripherals, a leading computer disk-drive maker, at 15 in 1992. The stock peaked at 25% in January before plunging to 9 in October. By placing a stop

A stop order will trigger sales of stock at preset levels

order at 20%, about 20% below the high, you would have preserved 52% of the profit.

Stop orders can take the anxiety out of tough selling decisions. "They avoid having your broker call and say:

"We're down seven points, what do you want to do?" says Robert Clear, a broker at Smith Barney Shearson in Morristown, N.J. Another option is to employ stop orders to buy choice stocks during market dips. This entails placing an order to buy a stock at \$20, say, when the present price is \$25.

NO GUARANTEES. Discount and full-service brokers accept stop orders for all listings on the New York and American stock exchanges. Many also allow them for over-the-counter stocks on a limited basis. Charles Schwab permits stop orders for the 600 most-traded NASDAQ listings.

A stop order isn't an iron-

clad safeguard. For instance, you're not guaranteed an exact selling price, so your shares could be sold for less than the preset level when trading is extremely heavy. Another drawback is that temporary price drops could trigger your stop order, causing you to miss out on the stock's rebound. Placing a stop order 10% to 20% below a stock's recent high price can help prevent unwanted sales, investment pros say. Raborn puts stop orders 20% below the stock's best level since the purchase date. "We have found this a wide enough band so that you won't lose your good stocks," he said.

Don't confuse stop orders with stop-limit orders, which dictate a stock be sold only at a specified price. The problem is that if your stop-limit order is at \$93 and a stock trades at \$94 and then skips to \$92, your order will be ignored. *Susan Scheraga*

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OUR WORLD REVOLVES AROUND YOU



Pagers do a lot more these days than just beep. A slew of new services promises to transform paging from a system that transmits phone numbers to one that carries full-blown text messages and other data.

Some paging operators have recently begun sending customers stock-price updates, sports scores, and news flashes. In late October, Skytel became the first nationwide paging system to offer financial quotes twice a day on up to four companies selected by the customer.

Also in October, the second-largest paging operator, MobileComm, began sending wireless messages to Apple Computer's Newton MessagePads and other personal digital assistants equipped with a Motorola-designed card that acts as a radio receiver. The add-on accessory retails for about \$200. Soon, similar cards that can be inserted into laptop and notebook computers will allow them to receive messages over paging frequencies, too.

Next year, the industry will reach an important milestone when Skytel tests limited two-way messaging. At first, customers will only be able to send a preprogrammed acknowledgment that they received a message or phone number. Eventually, Skytel and other carriers hope to expand the two-way capabilities.

These offerings will appeal to the high end of the paging market. For one thing, they require an alphanumeric pag-

PAGERS START TO DELIVER MORE THAN PHONE NUMBERS

er, such as NEC's Courier and Motorola's Advisor, which have large liquid-crystal displays that show several lines of type and range from \$199 to \$249. The services won't

the person trying to reach you, since prices have plunged by 50% in the past five years to well below \$100 for basic models. The units are easier to find: In addition to special-



THE LATEST PAGERS, INCLUDING THESE MOTOROLA NUMERIC MODELS, COME IN DAZZLING COLORS AND LIST FOR UNDER \$100

Service options on any network vary quite a bit. Most people with numeric pagers opt for local service, which covers a metropolitan area. It runs \$8 to \$15 monthly, excluding pager rental of \$3 to \$10 if you decide to buy. There's also extended local coverage, such as Southern California or the Northeast corridor, for a few dollars more. Monthly regional paging for the Midwest,

for example, costs about \$25 to \$34. Nationwide service runs \$40 to \$50 a month, but it may not be blanket coverage: Only MobileComm transmits in all 48 states, the Virgin Islands, and Puerto Rico.

Add \$10 or so a month for alphanumeric pagers. Keep in mind there are additional charges because people sending a message must dial a number to an operator for transmission. The operator charge for 100 messages a month ranges from \$12 to \$18. (If you send messages from a laptop with a radio modem, there's no charge.)

That's still a bargain compared with \$40 a month for basic cellular service, plus 25¢ a minute for every call. By the end of 1993, wonder 3.4 million more Americans are expected to clip pagers to their belts each year.

Lois Ther...

be cheap, either. Skytel's new SkyQuote service costs \$10 a month, in addition to \$50 or \$60 for basic nationwide alphanumeric paging.

Meanwhile, Motorola, Panasonic, NEC, and Uniden are busily updating traditional numeric pagers with snazzy designs, neon colors, and other features (table). Demand is booming for these devices, which display the number of

resources. More than 5,000 dealers, a swarm of mass merchandisers, department stores, and electronics chains, such as Circuit City, Macy's, and Target, are teaming up with paging networks to hawk a variety of models.

OPERATOR FEES. Picking the right service goes hand in hand with choosing a pager. Nearly all pagers receive radio waves using a crystal that is ground at the factory to resonate at a set frequency for a specific network. The design makes it difficult to switch carriers—unlike cellular phones, which use computer chips for transmitting and can be readily reprogrammed to run on a different system. So it pays to check out the paging networks in your area for quality, reliability, and price, then head to a retailer that has hooked up with your preferred carrier.

Worth Noting

MONEY MATTERS. Concerned about the latest tax changes? Wondering where to invest for safe and high yields? *Everyone's Money Book* by Jordan E. Goodman and Sonny Bloch (\$24.95, Dearborn Financial Publishing) addresses a wide range of financial planning topics and lists

NEEDY CAUSES. The American Institute of Philanthropy's free *Giver's Charity Rating Guide* analyzes the cost of fund-raising and other relevant data on more than 300 charitable organizations in 36 fields, from AIDS and cancer to literacy and the environment. Write: AIP, 4579 Laclede Ave., Suite 136, St. Louis, Mo. 63108; 314 454-3040.

THE LATEST IN NUMERIC PAGERS

Model/Make	Price
SPORT/NEC Vibrates or beeps; stores 16 messages; comes in colors and clear	\$10
FREESPIRIT/MOTOROLA Triangular; vibrates or chimes; stores up to 10 numbers	\$12
BRAVO EXPRESS/MOTOROLA Has FreeSpirit's features, plus time stamps pages and retains memory when unit is off	\$14
BUSINESS CARD/NEC Full-featured, credit-card size	\$29

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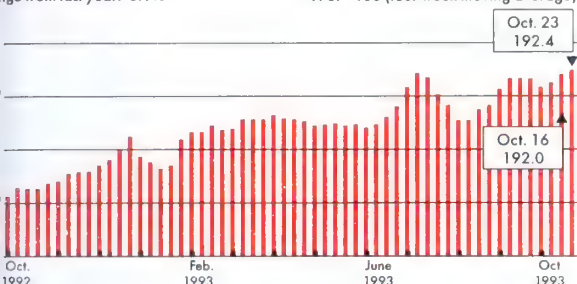
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BusinessWeek Index

PRODUCTION

Change from last week: 0.2%
Change from last year: 6.1%

1967=100 (four-week moving average)

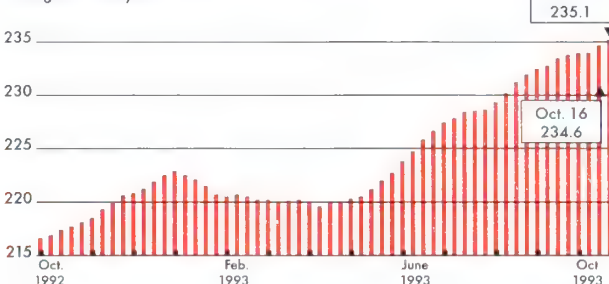


The production index increased slightly in the week ended Oct. 23. On a seasonally adjusted basis, output levels of paper, lumber, and autos rose, while production of crude-oil refining, coal, paperboard, and rail-freight traffic all declined during the week. Steel, truck, and electric-power output levels were unchanged. Recalculation of the four-week average, the index stood at 193.3, unchanged from the previous week.

BW production index copyright 1993 by McGraw-Hill Inc.

LEADING

Change from last week: 0.2%
Change from last year: 8.0%



The leading index rose during the week ended Oct. 23, helped in large part by the continued rally in the stock market. In addition, the growth of materials prices improved, and the number of large-business failures fell. However, the growth rates of both real estate loans and M2 slowed, while bond yields were little changed. Before calculation of the four-week average, the index dropped to 234.9, from a reading of 236.8 the week before.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
(10/30) thous. of net tons	1,910	1,901#	9.5
STEEL (10/30) units	130,223	137,467r#	2.4
TRUCKS (10/30) units	113,050	113,994r#	15.5
ELECTRIC POWER (10/30) millions of kilowatt-hours	53,836	54,477#	-0.2
CRUDE-OIL REFINING (10/30) thous. of bbl./day	13,708	13,578#	1.0
(10/23) thous. of net tons	19,445#	19,316	1.2
PAPERBOARD (10/23) thous. of tons	826.3#	830.5r	2.8
RAIL (10/23) thous. of tons	807.0#	777.0r	2.2
PIPE (10/23) millions of ft.	490.4#	485.1	2.9
FREIGHT (10/23) billions of ton-miles	23.2#	22.9	5.5

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA¹, SFPA², Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
YEN (11/3)	107	108	123
MARK (11/3)	1.70	1.68	1.58
POUND (11/3)	1.48	1.47	1.54
FRANC (11/3)	5.91	5.87	5.37
DOLLAR (11/3)	1.31	1.32	1.25
FRANC (11/3)	1.50	1.48	1.42
PESO (11/3) ³	3.113	3.113	3.109

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
(11/3) \$/troy oz.	363.550	371.500	7.6
SCRAP (11/2) #1 heavy, \$/ton	131.50	131.50	46.9
STUFFS (11/2) index, 1967=100	215.6	215.7	9.4
CRUDE (10/30) c/lb.	84.4	84.5	-19.6
COPPER (10/30) c/lb.	50.6	52.0	-5.1
IRON (10/30) #2 hard, \$/bu.	3.38	3.39	-5.1
STEEL (10/30) strict low middling 1-1/16 in., c/lb.	56.25	55.50	18.8

Sources: London Wednesday final settling, Chicago market, Commodity Research Bureau, Metals Institute, Kansas City market, Memphis market

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. ¹Forest Products Assn. ²Southern Forest Products Assn. ³Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/29) S&P 500	465.73	465.87	11.1
CORPORATE BOND YIELD, Aaa (10/29)	6.73%	6.63%	-16.6
INDUSTRIAL MATERIALS PRICES (10/29)	94.4	94.4	-2.0
BUSINESS FAILURES (10/22)	339	349	-14.6
REAL ESTATE LOANS (10/20) billions	\$404.6	\$407.4	0.7
MONEY SUPPLY, M2 (10/18) billions	\$3,503.7	\$3,504.8r	1.2
INITIAL CLAIMS, UNEMPLOYMENT (10/16) thous.	351	344	-6.6

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
PERSONAL INCOME (Sept.) annual rate, billions	\$5,440.1	\$5,429.7r	5.2
CONSUMER SPENDING (Sept.) billions	\$4,432.4	\$4,417.8r	5.6
12 LEADING INDICATORS COMPOSITE (Sept.) index	153.6	152.9	3.3
NEW HOME SALES (Sept.) annual rate, thous.	762	631	13.4

Sources: Commerce Dept., BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/18)	\$1,117.9	\$1,113.4r	11.2
BANKS' BUSINESS LOANS (10/20)	271.0	270.5r	-2.6
FREE RESERVES (10/27)	857	672r	-10.1
NONFINANCIAL COMMERCIAL PAPER (10/20)	161.1	160.8	10.3

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/2)	3.02%	3.03%	3.07%
PRIME (11/3)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (11/2)	3.37	3.28	3.48
CERTIFICATES OF DEPOSIT 3-MONTH (11/3)	3.37	3.28	3.42
EURODOLLAR 3-MONTH (10/29)	3.29	3.25	3.46

Sources: Federal Reserve Board, First Boston

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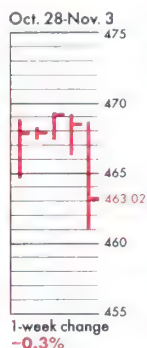
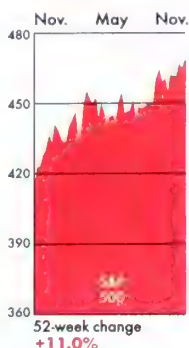
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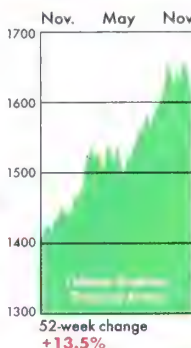
MARKET COMMENTARY

Economic news set off a wave of fear and loathing in the bond and stock markets. Yields of Treasury Treasuries climbed to 3.14% on Nov. 3, on the heels of a report that new-home sales climbed 1.5% in September. Also, traders were dismayed by a 0.5% increase in the index of leading indicators during September. Reacting to bad tidings in the bond market related jitters among utilities, the stock market sank 36 points on Nov. 3, with the Dow Jones Industrial Average falling 36 points.

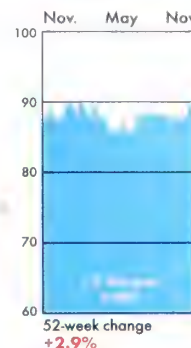
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
INDUSTRIALS	3661.9	-0.1	13.6
TECHNOLOGY COMPANIES (S&P MidCap Index)	173.4	-0.4	17.3
SMALL-CAP COMPANIES (Russell 2000)	257.1	0.4	28.8
LARGE-CAP COMPANIES (Russell 3000)	267.3	-0.4	13.0

FOREIGN STOCKS	Latest	% change (local currency) Week	% change 52-week
EUROPEAN (FINANCIAL TIMES 100)	3162.3	0.3	17.5
ASIAN (NIKKEI INDEX)	19,381.2	-2.3	13.6
GLOBAL (TSE COMPOSITE)	4244.7	1.1	26.9

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.14%	3.15%	3.08%
30-YEAR TREASURY BOND YIELD	6.12%	6.00%	7.69%
S&P 500 DIVIDEND YIELD	2.62%	2.69%	2.95%
S&P 500 PRICE/EARNINGS RATIO	22.4	22.2	22.4

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	453.5	452.6	Positive
Stocks above 26-week moving average	62.3%	62.0%	Neutral
Speculative sentiment: Put/call ratio	0.40	0.38	Neutral
Insider sentiment: Vickers sell/buy ratio	2.38	2.32	Neutral

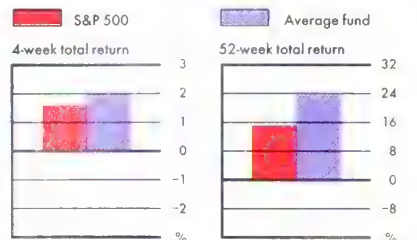
INDUSTRY GROUPS

4-WEEK LEADERS	% change 4-week	% change 52-week
TELECOM	15.7	-15.7
VEHICLES	14.4	74.7
BROADCASTING	14.0	-68.4
ALCOHOL	13.0	-27.7
MINING	12.8	57.1
4-WEEK LAGGARDS	% change 4-week	% change 52-week
NUCLEAR POWER	-13.6	-27.5
OIL AND GAS DRILLING	-12.5	12.6
REGIONAL BANKS	-9.7	11.6
INSURANCE BROKERS	-8.6	-15.1
INSURANCE	-8.1	17.7

Strongest stock in group	% change 4-week	% change 52-week	Price
REEBOK INTERNATIONAL	26.8	11.1	31 3/8
CHRYSLER	17.9	112.4	57 3/8
COMCAST	25.4	200.9	41 3/8
PHILIP MORRIS	17.2	-29.3	53 3/4
PLACER DOME	18.5	93.8	23 1/4
Weakest stock in group	% change 4-week	% change 52-week	Price
WMX TECHNOLOGIES	-16.2	-32.6	25 1/8
HELMERICH & PAYNE	-13.1	22.6	29 7/8
FIRST UNION	-15.3	7.9	40 3/4
MARSH & McLENNAN	-9.4	-13.9	80 1/4
TORCHMARK	-16.0	-9.5	46 1/2

MUTUAL FUNDS

LEADERS		LAGGARDS	
4-week total return	%	4-week total return	%
INVESTCO STRATEGIC GOLD	19.1	DFA JAPANESE SMALL COMPANY	-9.0
WELLS FARGO INSTITUTIONAL ASIAN EQUITY	18.8	EQUITY STRATEGIES	-8.8
FIDELITY LYNCH DRAGON A	18.2	FIDELITY SELECT NATURAL GAS	-6.5
52-week total return	%	52-week total return	%
WELLS FARGO STRATEGIC INVESTMENTS	181.4	PILGRIM CORPORATE UTILITIES	-13.5
WELLS FARGO GROWTH	92.1	INVESTCO STRATEGIC ENVIRONMENTAL SERVICES	-9.8
WELLS FARGO MIDAS GOLD	78.1	JENSEN	-6.2



ACTIVE PORTFOLIOS

Amounts represent the present value of \$10,000 invested one year ago in the portfolio

Figures indicate percentage total returns


Foreign stocks
\$14,533
-0.11%


Treasury bonds
\$12,466
-1.67%


U.S. stocks
\$11,389
+0.89%


Gold
\$10,714
-1.43%


Money market fund
\$10,219
+0.04%

Figures on this page are as of market close Wednesday, Nov. 3, 1993, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close

Nov. 2. Mutual fund returns are as of Oct. 29. Relative portfolios are valued as of Nov. 2. A more detailed explanation of this page is available on request.

WELCOME TO THE AGE OF DISINFLATION

A rare disinflationary expansion is coursing through America's economy. Falling prices are setting off a boom right where the economy needs it—in capital equipment. Capital spending, led by expenditures for high-tech gear, has been galloping ahead at a 15% annual rate for the past six quarters. At \$185 billion, spending on high-tech equipment is up 45% since mid-1991 and is now larger than the total amount of money going into all nonresidential construction, including plants, offices, shopping centers, etc.

Disinflationary expansions are something of an economic oxymoron. Economic theory suggests that surging demand for products normally generates pressures for higher, not lower, prices and produces higher, not lower, inflation. This time, however, the opposite is happening. Fast-moving changes in digital technology are sending prices on computer-based equipment plummeting. Third-quarter prices for high-tech capital goods were an amazing 8.3% lower than a year earlier. These lower prices, in turn, generated enough demand to boost spending by an impressive 20.8%.

Welcome to the Age of Disinflation. Pricing power is dead. Price cutting is king. With stagnant income growth in the U.S., Europe, and Japan, price cutting is key to boosting consumer demand, sales, and profits (page 146).

The Age of Disinflation is being born of two connected global forces—vast technological change and the opening of international markets. While technology drives down the cost of computer chips, the spread of markets to formerly communist and statist economies pushes down the cost of labor, goods, and even services. In Detroit, auto workers compete against counterparts in Mexico. In Silicon Valley, software writers go head to head with programmers in Russia and India.

Many corporations are blazing trails into the new disinflationary wilderness. The mantra for the '90s is "price determines process." The game is to learn what customers are willing to pay for a product, then reverse-engineer the corporate process to hit that target. Instead of price being based on a company's costs, price now drives those costs.

The new world of disinflation demands a reorganization of corporate behavior to ensure speed, flexibility, and innovation. Companies that shed too many skills and competencies in search of the last penny may find themselves unable to reengineer themselves and unprepared to fight the pricing wars of the late 20th century.

RACISM DIDN'T WIN IN AMERICA'S CITIES

With the defeat of New York Mayor David Dinkins, the five largest cities in the U.S. will be governed by white chief executives. Just a few years ago, Los Angeles, Philadelphia, Chicago, and New York were

all led by black mayors. Yet it would be too easy to dismiss Republican Rudolph Giuliani's New York victory as simply a referendum on racial polarization.

Simply put, our cities don't work. They are riddled with crime, corruption, bureaucratic inefficiency, and senseless barriers to business expansion. Schools don't teach, roads are falling apart, drugs and violence are pandemic, and an army of "ment-chems"—mentally ill, chemically addicted people—panhandle aggressively on street corners, creating a threatening atmosphere in our public space, especially for women, children, and the elderly.

Not surprisingly, voters want a change. Urban dwellers, black and white alike, are looking for candidates who will come up with imaginative solutions without new bureaucratic rules or onerous tax hikes. African Americans won mayoral contests this year across the country, but in those campaigns, the fight for a liberal agenda gave way, in large part, to new imperatives—jobs and safety. The result is a new generation of black mayors who sound more like Clinton New Democrats than Jesse Jackson liberals. In Detroit and Cleveland, voters on Nov. 2 chose black mayors who stress jobs, education, and crime prevention.

The truth is that policy, more than race, determined this year's big-city elections. And that is as it should be.

HEALTH CARE NEEDS A NATIONAL FRAMEWORK

Hillary Rodham Clinton was only partially right when she went before the American Academy of Pediatrics to charge health insurers with bringing America to the brink of bankruptcy because of the way that they have financed health care." Truth is, until the late 1980s, insured physicians performed whatever procedure they deemed necessary. Insurers meekly paid the bill—and passed on the cost to business.

Corporate America finally put the brakes on this and invested time and money in health-cost containment. The result? Health-care premiums are rising by only 8%, down from 11%, the slowest increase in five years. There's a long way still to go, but at least business has turned the corner. Unlike Medicare and Medicaid, the federal government's health plans.

Yet just as employers start to get results, the Clinton Health Security Act proposes to gut their efforts. Small and medium-size employers would lose control over health benefits—and just write checks to purchasing cooperatives. And the large employers that have forced cost efficiency on the medical industry would be set back 20 years, as the President's plan subjects them to increased state regulation—at the whims of whatever medical interest group has the ear of legislatures (page 35).

Fortunately, the Clinton plan, which has many good features, can be modified on Capitol Hill. The new health system that emerges from Congress should include health benefits that are built on a national framework—not Balkanized by state regulation.

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A full-page photograph of two women standing in front of a large white and maroon truck. The woman on the left is wearing a white dress and white heels, while the woman on the right is wearing a patterned jacket, a tan skirt, and dark heels. The truck has a logo on its side. The background is a bright, sunny outdoor setting.

Mary Evans
Division VP and Controller
Waste Management
Oakland, CA

Linda Reynolds
Senior Sales Executive
Rucker Fuller
San Francisco, CA

BusinessWeek

EMBER 22, 1993

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WHAT IF NAFTA LOSES?

PAGE 32



*Plus: The Potential of
North America Inc.*



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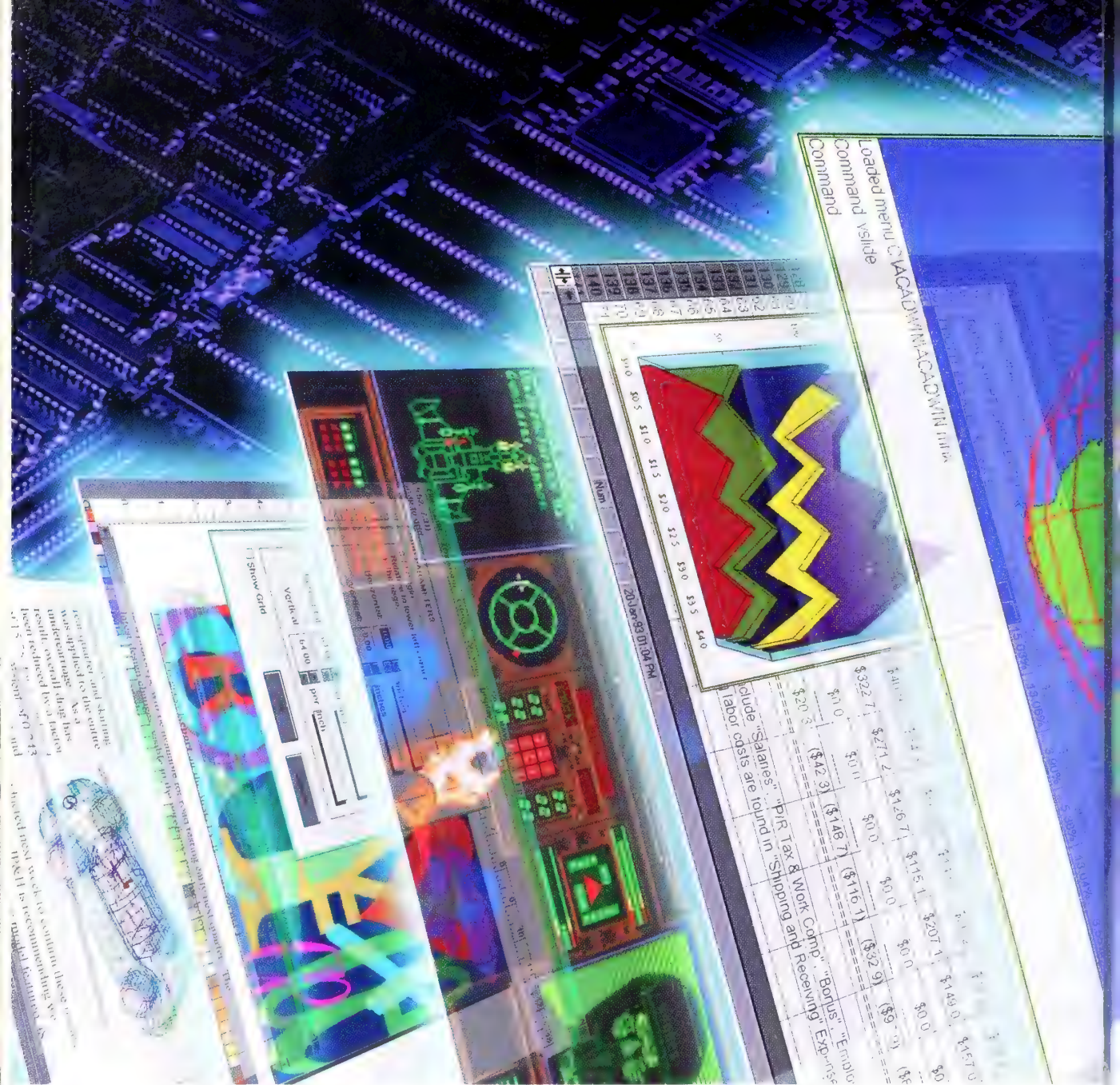
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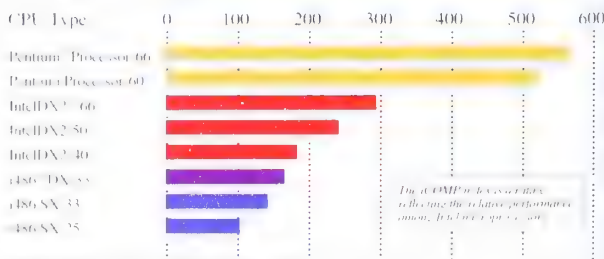
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TOE TO TOE: GORE AND PEROT PROVIDED GOOD THEATER, BUT NAFTA'S FATE WILL BE DECIDED IN CONGRESSIONAL CLOAKROOMS

Cover Story

32 NAFTA—WHAT IF IT LOSES?

A defeat could cast a pall over the Clinton Presidency, antagonize much of Latin America, prompt a slide in world markets, and raise the specter of a global drift toward protectionism just as Clinton sets off for a key trade meeting with Chinese leaders. Will the U.S. show itself to be a grown-up global player—or instead retreat as the free-trade leader of the world?

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Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

THE GLOBAL ECONOMY

TOYOTA'S CAMRY: MADE IN THE USA—SORT OF

Toyota wants Americans to think of its top-selling Camry as home-baked in the U.S. of A. True enough, the Camry is assembled in Georgetown, Ky. But where do the parts come from? A long-running Toyota ad says that Camry parts are bought from suppliers "no matter which state they're from," then goes on to list the components by American locale. Yet it's not that simple.

Of 63 parts suppliers the ad mentions, 32 are U.S.-owned companies. An addi-

tional 14 are U.S.-Japanese joint ventures: Japan's Sango and America's Arvin, for instance, make the exhaust system. Nine of the other suppliers, such as Nippondenso, are owned in whole or in part by Toyota. Five are U.S. operations of a non-Toyota Japanese parent. And three are Canadian- or European-owned.

So, how much of a Camry is American? Hard to tell. Toyota contends that 75% of the content of the Kentucky-built Camry is domestic. Rival Ford Motor says that number is inflated and includes shipping and other overhead. Ford says the Camry is less than 50% American.

TALK SHOW

I've been accused of looking in the rearview mirror. That's right. I'm looking back at reality. — Ross Perot, CNN debate

He started out as the head of United We Stand, and I'm afraid he'll end up as the head of Divided We Fall. — Al Gore, CNN debate



Toyota contends the ad isn't misleading and says it aims to make Americans realize that Toyota's involvement in the U.S. economy is deep.

"The point of this ad is, buy parts in the U.S., use American workers, create American jobs," says spokesman. *James B. Tree*

DEAL MILL

FORD PUTS BRUISED BANK ON BLOCK

After years of financial *agita*, Ford Motor is fed up with losses at First Nationwide Financial and is trying to sell the nation's No. 6 savings and loan. Wall Street sources say. Back in 1985, when Ford bought the San Francisco-based S&L for \$493 million, it looked like a winner. But bad real estate loans and an overaggressive



cross-country expansion racked up \$196 million in red ink since 1991. Ford won't comment on a possible sale.

Now is a good time to sell: Financial services are hot. First Nationwide, which has shrunk from 14 states to 8 in the past three years, may be sold in chunks. Industry leader H.F. Ahmanson has been approached by Ford, sources say. One lingering woe for Ford: To entice buyers, it may have to keep much of the thrift's \$1 billion in bad assets. *Amy Barrett*

FAT-CAT FOLLIES

THE POLITICS OF MUNIS, CONTINUED...

Mushrooming municipal-bond scandals recently forced Wall Street to stop spreading the money around. In mid October, 18 big underwriters agreed they'd neither donate to state and local officials' campaigns nor solicit others to do so. But the ban's early record is spotty.

Take New York State Comptroller Carl McCall. A week after the ban was imposed, four fat cats solicited money for McCall in a letter: Lazard Frères Senior Partner

Felix Rohatyn, Goldman Sachs muni chief David Clapp, Bear Stearns CEO Jamal Cayne, and Chairman Richard Jenrette of Equitable Life Assurance, owner of Donaldson, Lufkin & Jenrette.

Their explanations? Jenrette, also a director of McGraw-Hill Inc., publisher of *BUSINESS WEEK*, says he's exempt: He just heads DLJ's holding company. Rohatyn says he committed to the ban and "forgot about it." Cayne and Clapp would comment. When the letter surfaced, all four quit McCall's finance committee. McCall says the letter was a slipup. It was printed before the ban.

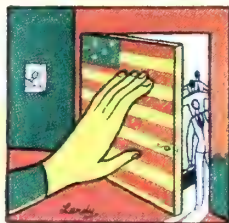
And in Texas, state Treasurer Martha Whitehead just called on Wall Street for money. Why is she ignoring the ban? She says that Texas, like most states, selects on the lowest bidder to peddle bonds. *Leah Nathans Sp*

REALITY CHECK

POLITICIANS SAY slash legal immigration and crack down on the illegal kind. Senator Harry Reid (D-Nev.) wants to shrink immigration quotas by almost two-thirds, to 300,000 yearly. Pat Buchanan wants an outright moratorium on

IN REALITY, the U.S., a nation of immigrants, needs the energy and skills of the foreign-born, many of whom take the jobs no American wants. Moreover, upcoming shortfalls in various skills are predicted. Right now, the U.S. imports thousands of software engineers and

newcomers. The House of Representatives has voted to beef up border patrols to shut out illegals. Why all the hue and cry? Because immigrants are blamed for taking jobs from Americans, committing crimes, and causing a slew of social ills.



physical therapists on temporary visas. And as a practical matter, the influx of illegal immigrants from our neighbors is hardly stanching by heavier policing. The best way to curtail illegal immigration, especially from Mexico, is to O.K. the North American Free Trade Agreement.

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FROM CHART-BUSTER TO CONTRACT-BREAKER?



GEORGE MICHAEL: Point man.

Pop singer George Michael's bid to wiggle out of his recording contract with Sony in Britain has U.S. music moguls quaking. Says the head of marketing at a major U.S. record outfit: "We have to hope Sony wins." They're afraid a victory for the stubble-chinned star will inspire a blizzard of such at-

tempts by American entertainers, shaking the longstanding hold the music companies have over their careers.

A pro-Michael verdict in Britain's High Court would form no legal precedent in the U.S. But entertainment kingpins fear a massive courtroom assault by well-heeled artists would crumble the companies' legal position here. Or if not, it will compel the industry to reach a lot of costly out-of-court settlements with talent.

Right now, few entertainers try to sever their contractual links. And contract experts say that in California and New York—the two states where most acts sign with music companies—the law is even tougher than in Britain on entertainers attempting it. Those who do try seldom win. Rhythm & blues performer Luther Vandross tried to get released in 1992 from Epic, a Sony label, and ended up settling out of court. He's still with Epic.

Michael, 30, is required to churn out six more albums for Sony by 2003 for an undisclosed, yet princely, sum. He objects that Sony's cut of his profits is too high and that Sony limits his artistic freedom. Sony won't comment. □

THE BEST REVENGE

ON A CLEAR DAY YOU CAN SEE YOUR BELT

If General Motors' top executives fail in their efforts to turn around the ailing auto maker, they can always fall back on the Twinkie defense.



Back when J. Ignacio López de Arriortúa was GM's purchasing czar, he put managers on his low-sugar, low-fat,

fruit-heavy "Warrior Diet." Fruit snacks were the only ones available in his area. The cost-cutting scourge of GM suppliers, López believed that these healthy eats made for tougher, harder executives.

The nutritional standards for GM managers, though, have slipped since López' defection to Volkswagen earlier this year. GM Chief Financial Officer Rick Wagoner, who assumed López' duties, still has fresh fruit delivered to the office daily for snack-hungry execs. But, he says, "we've got Hostess Twinkies now, too." *Kathleen Kerwin*

DRAWN AND QUARTERED



SCENIC WONDER

THE SECRET TO PRODUCTIVITY: GLASS

Forget about raises, promotions, and perks. The real employee-motivator is a window. According to a 1,200-person survey by University of Michigan psychologist Rachel



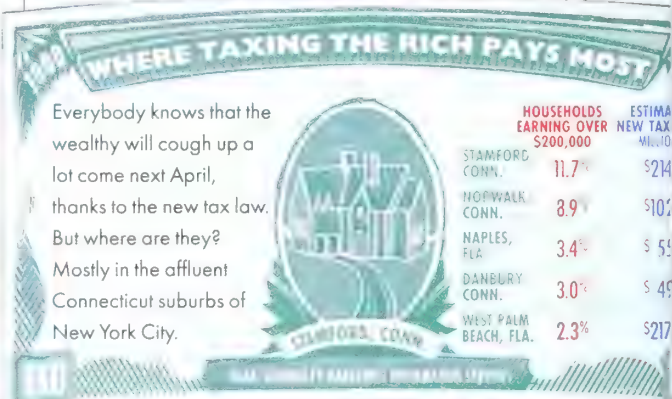
Kaplan, workers with views of the outside world show more enthusiasm for their jobs, less frustration, more patience, better concentration, and fewer physical ailments.

There's something spiritual enriching about being able to let your eyes wander to the misty horizon.

What about their co-workers in windowless cubicles? This crowd's attitude, relatively speaking, stinks. They're less imaginative and more irritable. Concentration is a problem, too, for this staring group. And you would think that window-sitters would be more prone to loiter themselves, daydreaming as they gazed on those sweetening panoramas. Nope.

It doesn't even matter if you work in the city. Kaplan found that those with only one lone tree or two in sight had more job satisfaction than the hapless souls without. The vista beyond the window doesn't need to be natural. Juice up morale, either. Buildings and parking lots do the job. So the next time your boss catches you gazing out the window, don't hesitate to say that it's for the good of the company.

THE BIG PICTURE



FOOTNOTES

1995 Medicare legislation, House version: **264** pages. 1993 Clinton health-care bill, House version: **1,342** pages.

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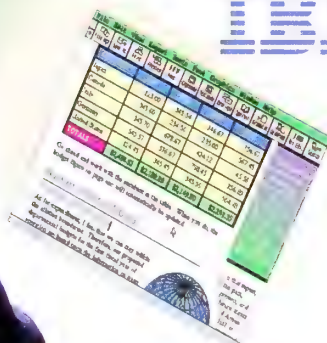
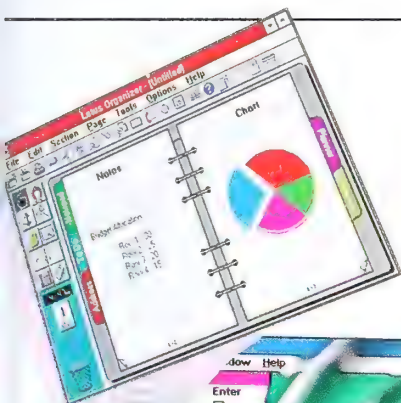
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WHAT'S BEHIND GM'S WRIST MANAGEMENT

I read with interest your article "Can Jack Smith fix GM?" (Cover Story, Nov. 1). Much has been said and written about the departure of José Ignacio López de Arriortúa from General Motors and his eccentric personality, such as wearing his watch on his right wrist until GM North America turned a profit.

Your photos show Jack Smith with his watch also on his right wrist. Does this mean Jack and "Inaki" still share the same belief or was the photo taken with a reverse negative?

Steven Schultz
Ann Arbor, Mich.

Editor's note: Even though López has left, executives are still abiding by a pledge to keep their watches strapped to their right wrists until GM North America becomes profitable.

A 'LUCKY' ECONOMY IS MORE THAN JUST CHANCE

Regarding "What spurs the economy—investment or just plain luck?" (Economic Trends, Nov. 1), it is true that investment in modern factory equipment and superior technology do not help some nations to become economically rich. But this is brought about by negligence.

The success of the so-called Four Dragons, such as Taiwan and Singapore, cannot be imagined without reasonable and suitable investment. It is impossible for advanced nations to realize economic growth without taking a well-planned investment into consideration.

Hisashi Noda
Funabashi, Japan

WILL THE TAX MAN TRAMPLE MIDDLE-CLASS RETIREES?

In reference to the article "Why the middle class is still stuck" (Economics, Nov. 1), candidate and later President Bill Clinton reassured the American people that the "middle class" would have a tax cut—or not be affected by his new budget.

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He lied, as the following facts prove. Any average taxpayer earning between \$30,000 to \$40,000 is supposed to be paying only \$65 more in income taxes (not counting the gas tax). That's not much of an increase.

But middle-class retirees—those whose total earnings including Social Security exceed \$44,000—will pay \$1,465 more annually in income taxes.

It all depends on a new use of language. Retirees with income aren't middle class, they're suddenly considered well-to-do. And taxes aren't taxes anymore, they are called by various other bureaucratic misnomers.

Tax relief—bah, humbug!

Wait until everyone gets their tax bills next year.

Bob Vered
Indianapolis

POLLSTERS SHOULD READ THEIR OWN FINE PRINT

Why is it that reporters and editors try to read more into public opinion polls than is really there? Take for example the recent BUSINESS WEEK/Harris Poll, "Ticked off over taxes" (Top of the News, Nov. 1). In the text, you state: "Fully 67% believe they have 'reached the breaking point' on taxes. That's up from 65% in 1983."

But in the fine print at the bottom of the poll results, the disclaimer is made: "Results should be accurate to within three percentage points." That says to me that the difference between 1983 and 1993 results is within the statistical sampling error.

Murray L. Lessner
Yorktown Heights, N.Y.

THE TRUE VALUE OF BAXTER'S VALUELINK

Regarding "Backed against the wall at Baxter" (Top of the News, Sept. 27): Baxter's ValueLink program, a just-in-time distribution service, is a high-end service that, you assert, may be tipping out in a time of bottom-line thinking for hospitals. The article also suggests that ValueLink is seen by hospital buyers as a way for Baxter to supplant competitors' products with those of its own.

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Anthony K. Kesman
General Manager
ValueLink Business Center
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McGaw Park, Ill.

ATOR BRADLEY MAWS A DISTINCTION

would like to clarify the article "Senate Democrats: Clobbering Clinton with the suggestion box" (Washington Week, Oct. 25), which reported that I am interested in "building a new economic safety net."

In an Oct. 7 speech, I did propose that the government respond to the massive transformations shaking our economy. But in so doing, I drew a clear distinction between the safety net and what I called an economic security platform, an important distinction you unfortunately missed over. This is what I said:

The economic security platform is different from a social safety net. The safety net of government subsidies is where you end up if everything is falling from under you and you are about at the bottom. The economic security platform is where you rest before you dance. It is strictly and intentionally limited because of resources—we have a national debt—and because of theory—market's dynamism must not be lost. To add a house of additional new programs, mandates, and work rules would create a structure that would not be worthy."

Bill Bradley (D-N.J.)
U.S. Senate
Washington

CORRECTIONS & CLARIFICATIONS

"Absolute pandemonium" (Marketing, Nov. 8) should have noted that executives at Joseph E. Seagram & Sons Inc. there was no payment whatsoever for acquiring the rights to distribute Stolichnaya vodka in the U.S. The story estimated that Seagram paid \$1.25 billion, a figure that came from industry sources outside of Seagram.

MEET BUSINESS WEEK'S NEW PUBLISHER

We are pleased to announce that David Ferm has been named BUSINESS WEEK publisher. He will oversee all the business operations of the magazine, including advertising, sales and circulation. He will report to Jack Patten, president of BUSINESS WEEK Group at McGraw-Hill Inc. Patten, 63, has served as BW's publisher since 1985. Stephen B. Shepard remains editor-in-chief.

Dave Ferm, 45, joins us from New York Times Co., where he served as president and publisher of the highly successful *Golf Digest*. Dave joined *The New York Times* in 1980 as its first marketing director. He later served as head of business operations for

Family Circle, then headed retail ad sales for the *Times*. Prior to his stint at Times Co., Dave spent 11 years at the *Chicago Tribune*, where he progressed through a variety of advertising, marketing, and circulation jobs, culminating in the director of marketing.

Our new publisher grew up in Chicago, where his father was principal at a public high school. Dave received a bachelor of science degree in marketing from Loyola University.

He lives in Connecticut with his wife, Margy. They have five children, two of whom are away at college.

We're confident that Dave will continue BUSINESS WEEK's long tradition of excellence in publishing.



NEW PUBLISHER FERM (LEFT) AND GROUP PRESIDENT PATTEN

AFTER THE OVERSEAS ASSIGNMENT, A HO-HUM HOMECOMING

In reference to "The fast track leads overseas" (The Corporation, Nov. 1), you dealt too lightly with a major issue which, in my experience (including three years in London with GE Capital), faces executives who return from overseas assignments—reentry to the home office at a level commensurate with their experiences and capabilities.

I know many executives who have returned from overseas to be placed in positions with limited responsibilities and international content. These placements led to frustrated employees and wasted corporate resources.

George P. Schaefer
Darien, Conn.

CAVEATS FOR CAPITALISTS EYEING RUSSIA

I found your Cover Story "What Yeltsin must do" (Oct. 18) well-balanced and precise. As a businessman, I can say the primary thing needed is stability—and Western investments. Amid all the hardships, Russia is a vast country and still virtually unexplored in business terms. It has much potential, a skilled labor force, and more than 100 million consumers.

My advice for adventurous entrepreneurs: You could find excellent opportunities here, but you have to be cautious. Try to apply your common sense. Find the right partner. Be prepared for vague legislation, devious politics, and dishonest people. But if you overcome, you will

be rewarded with excellent results.
Nikolai Kovarsky, Vice-President
Babylon Co.
St. Petersburg

JUST HOW MANY HIGH-TECH JOBS ARE GOING TO ALIENS?

What would motivate one to prepare for a career in computer science in light of the explosion in the hiring of programmers from India? ("An immigrant-worker scheme comes under fire," Top of the News, Nov. 8).

There is no documentable shortage of available domestic talent justifying this bastardization of the H-1B visa program. The Administration and Congress should go beyond simply reforming the program—government must inform us of the "domestic content" of our information technology and other high-tech products, so that we can make informed buying decisions.

Robert R. Zeidler
Charlton, Mass.

THE TERRACCIANO PROFILE NEEDS SOME RETOUCHING

I read with interest the "Executive to watch" insert in the Corporate Elite section (Oct. 11). The description of Anthony P. Terracciano, chairman of First Fidelity Bancorp., as "tough-talking" and "chain-smoking" is inaccurate.

Thomas H. O'Brien Jr.
President and Chief Operating Officer
Union Trust Co. (a First Fidelity Bank)
Stamford, Conn.

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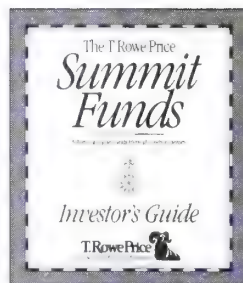
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THE SEA MAKE A NOISE:

HISTORY OF THE NORTH PACIFIC FROM MAGELLAN TO MacARTHUR

Walter A. McDougall

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THE DEAD TELL TALES OF THE NORTH PACIFIC

Just what kind of book is this, I had to wonder as I read *Let the Sea Make a Noise*. On one level, it's a historical narrative of the turbulent North Pacific—a region bordered by North America, Japan, China, and Asia. Walter A. McDougall chronicles the rise of the region's great empires and the precarious balance of power among them. His conclusion is sobering: the United States will never again enjoy the Pacific supremacy that it pursued for so long, and briefly attained." But McDougall tells his tale most un conventionally. The opening features him sitting away on his laptop, searching for the right "grabber" with which to begin. He bounces from a bloody anti-Christian purge in Japan of 1638 to the harsh fires of Alaska of 1899, where hustlers

reign supreme, to San Francisco in 1906 in the wake of a devastating earthquake. "The opener has to convey a sense of majesty and tragedy, the North Pacific as a place of explosions," McDougall muses at one point. "On the Pacific Rim people live life on the rim, waiting for the next typhoon or drought, or fire or volcanic eruption, or—F7 to exit! Save 'Alaska.' New document. Go!"

And that's only the beginning. As the book progresses, McDougall brings to life six characters who figure prominently in his history. Interspersed with the chronology of events are chapters of dialogue between the author and these luminaries, who debate, defend, or deny his assessments. They heatedly discuss everything from Spain's inability to defend its American colonies to Japan's

motives for attacking Pearl Harbor. Resurrected are Kaahumanu, a 19th century Hawaiian queen who helped tilt her nation toward the U.S. by embracing Christianity; William Henry Seward, U.S. Secretary of State during the Civil War; Saito Hiroshi, Japan's ambassador to the U.S. in the 1930s; Count Sergey Witte, Prime Minister to Tsar Nicholas II; and Father Junípero Serra, the first Westerner to establish a settlement in California. Later, Homer Lea, an American adviser to Chinese revolutionary Sun Yat-sen, joins the group.

But this is not a historical novel. McDougall, who won the 1986 Pulitzer in history for ...*The Heavens and the Earth*, about space exploration, terms this work "novelistic history" and "serious nonfiction." The good news: He pulls it off.

At first I thought McDougall was using semifictionalized figures to leaven what might otherwise be a turgid history. But these strong-willed, highly opinionated thinkers do more than supply lively conversation. Their comments—drawn in part from their writings—serve to challenge McDougall's modern, very American take on the evolution of the Pacific. The dialogues strengthen the book by conveying views that are often

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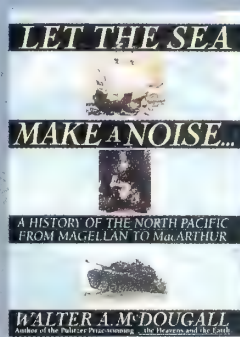
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adds with the author's. The book's real length, though, is McDougall's geopolitical analysis. He unfolds his saga chronologically, moving on, say, Nagasaki in 18 to Peking in 1644 to Chinkiang in 1689. Readers can see how developments in one place—be it political, technological, demographic, or economic—set off reactions elsewhere. The move to ex-slave-holding Texas led to the rise of the U.S. as a Pacific power, for example, as it prompted the annexation of free California and Oregon.

In McDougall's view, there's no one on the Pacific has crackled with conflict for the past 300 years. The region's fortunes have rested in the hands of a power triangle made up of the U.S., Asia, and Japan, he writes, and "when two nations clashed the third benefited, which allowed the loser of one round to recoup in the next round." One of the three has had its moment of

This offbeat but scintillating history features a quarrelsome cast of characters



glory, only to lose it by pushing too far. McDougall argues, for example, that while the U.S. became the Pacific's mightiest power after World War II, attempting to police Asia against communism and opening U.S. markets to Asian competitors in the spirit of free trade helped push it into decline.

One flaw is McDougall's underestimation of China's role. For the last 150 years, China has been weak, torn by re-

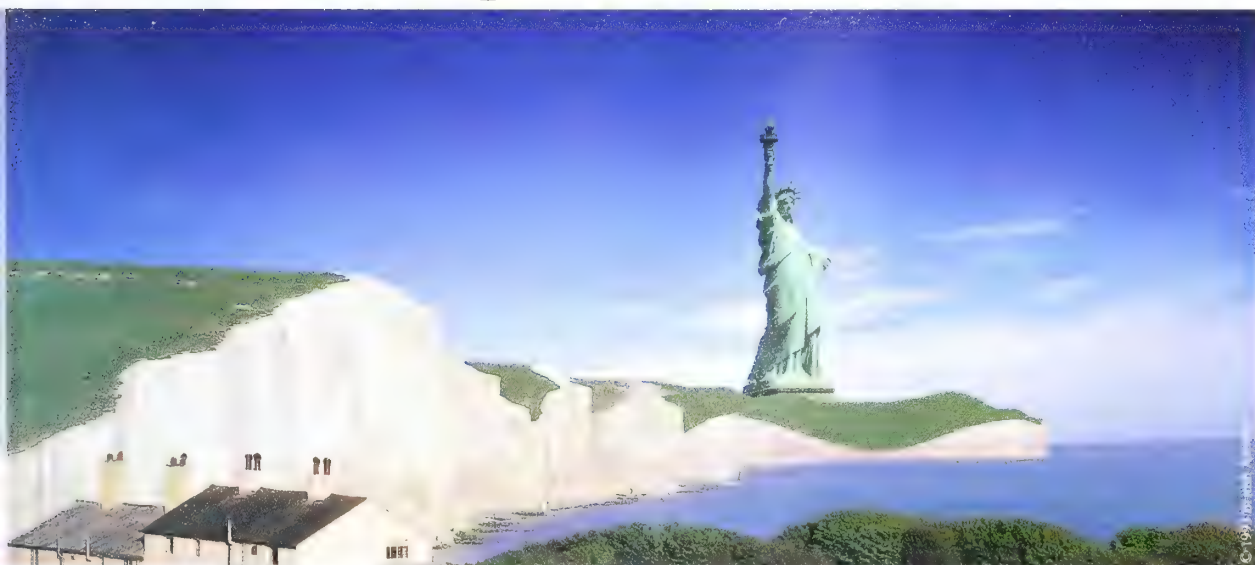
gional rivalries, and that, he suggests, is its fate. But from my perch in Asia, I see Beijing's economic and military star on the rise—which is sure to reconfigure the region's balance of power.

Without question, McDougall is provocative. He lets Homer Lea argue that America's ethnic diversity is a weakness. In Japan's more homogeneous society, Lea contends, the people's religious, cultural, and ethnic bond gives them a strength and vision America increasingly lacks. Says Lea: "A

mongrelized nation soon loses the will to defend its own city's streets, or its borders against aliens, or its markets against commercial invasion." While most Americans may resent that view, many Asians do believe America's lack of homogeneity will drag it down.

This unusual and intriguing history is a must-read for anyone interested in Asia, especially as political and economic power shifts to the East. The research

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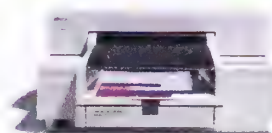
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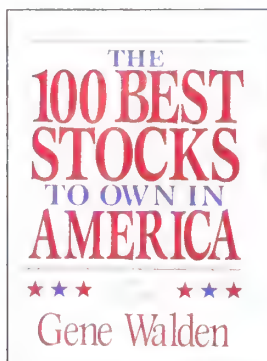
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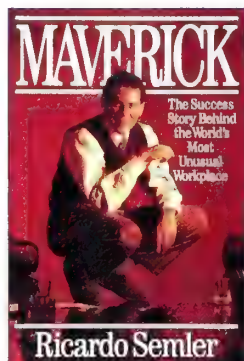


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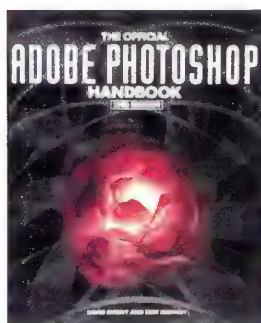
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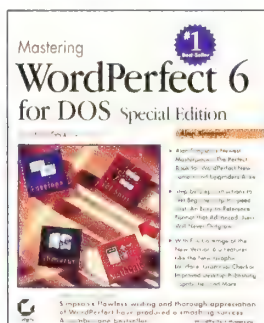
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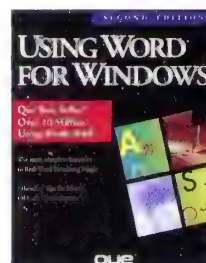
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is amazingly thorough, the writing lively, and the pace fast for a historical work of this magnitude. From start to finish, this book is an original.

BY JOYCE BARNATHAN

Hong Kong Bureau Manager Barnathan formerly reported from Moscow

BOOK BRIEFS

COLLISION COURSE:

THE TRUTH ABOUT AIRLINE SAFETY

By Ralph Nader and Wesley J. Smith
McGraw-Hill • 462pp • \$21.95

MAYDAY MONGERING

The litany of air-safety problems presented in *Collision Course: The Truth About Airline Safety* is so relentless that it seems miraculous a passenger ever lands unharmed.

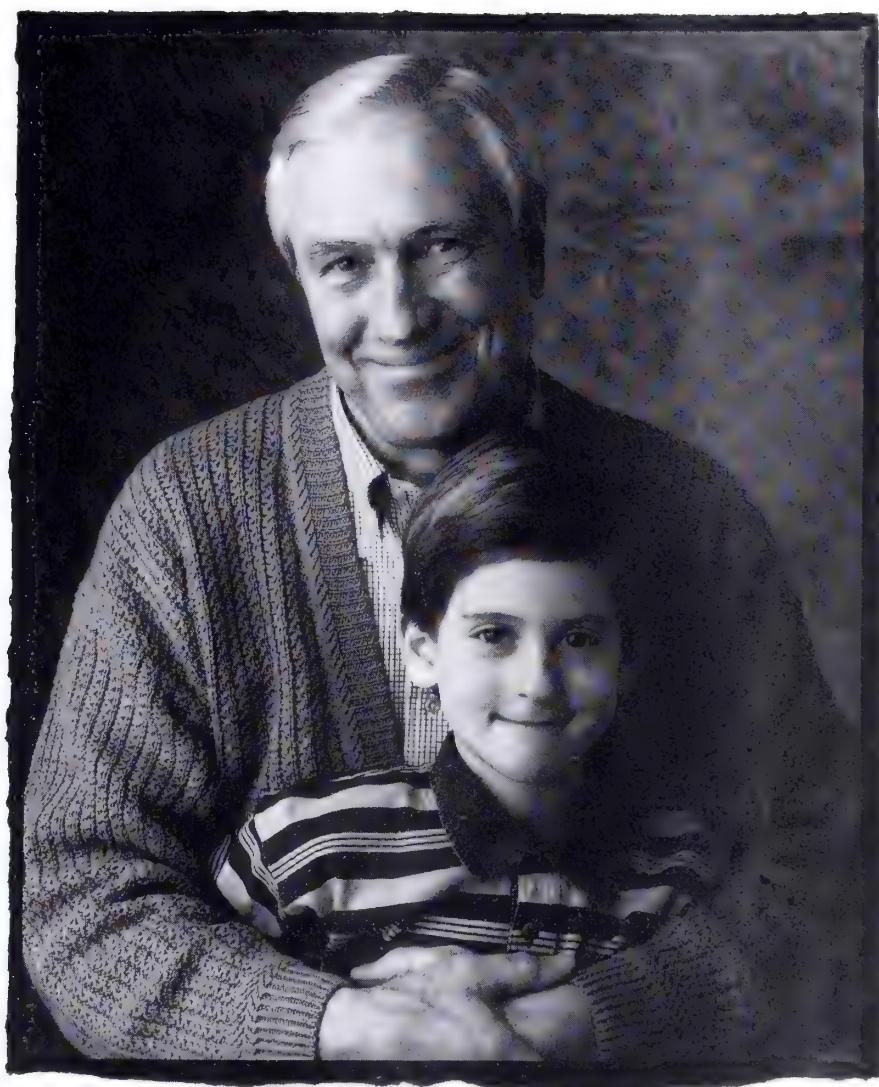
Authors Ralph Nader and Wesley J. Smith pile together every air-safety issue that has gotten any attention in recent years. They rehash General Accounting Office and National Transportation Safety Board (NTSB) reports, pumping drama into them with asides such as: "Additional people had to die. They paint the Federal Aviation Administration as a bureaucratic quagmire, incapable of dealing promptly with matters such as requiring fire-resistant airplane interiors. "There can be little doubt," they declare, "that the FAA... often reluctant to fully promote safety until tragedy forces its hand."

These exaggerations are built on grains of truth: It's true, for instance, that air safety could be improved. But there's no crisis at hand. The NTSB reports that in 1992, the large, scheduled airlines on which most folks fly had 10 fatalities—the lowest number since 1979. Deaths in commuter-aircraft and general-aviation accidents also dropped.

It's also true that the FAA tends to act after problems occur rather than anticipate and head them off. A restructuring of the FAA has been recommended by both the airline commission pointed by the White House and Vice-President Al Gore's Reinventing Government task force.

Collision Course concludes with a call for readers to join a citizens' advocacy group founded by Nader—a sales pitch that doesn't enhance the book's credibility. Readers who plow through the dense prose to that point will learn a great deal—more, perhaps, than they ever wished—about air safety issues and the government's response to them. But—as you know if a plane has ever gotten you safely where you wanted to go—they'll be getting only half the story.

BY SETH PAYSON



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MODERN-DAY TAXATION WITHOUT REPRESENTATION

BY PAUL CRAIG ROBERTS



State and local governments are regularly forced to raise taxes, abandon their own priorities, and reduce services in order to comply with one-size-fits-all federal policies that are inefficient and often moronic

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

The states are caught between the rising cost of unfunded federal mandates and slower revenue growth. The situation has become so dire that recently the National Governors' Assn., the National Conference of State Legislatures, the Council of State Governments, the National Association of Counties, the National League of Cities, and the U.S. Conference of Mayors joined together to protest unfunded mandates.

The National Governors' Assn. stresses that the expensive mandates "are the 20th century version of taxation without representation." State and local governments are regularly forced to raise taxes, abandon their own priorities, and cut back on services in order to comply with one-size-fits-all policies made in Washington. The mandates, the governors say, are usually unnecessary and inefficient, often reflecting outdated and bad policy.

Moreover, the governors say mandates are destructive of democracy and have effectively nullified the 10th Amendment, which reserves "powers not delegated to the United States by the Constitution . . . to the States respectively, or to the people." Unfunded mandates separate spending decisions from revenue decisions and thereby undercut the accountability that is fundamental to our democratic system. Since Congress doesn't have to come up with the money, Washington politicians can grandstand for the media while bowing and scraping to every organized lobby.

HAWAIIAN PUNCH. The unfunded mandates are extremely costly to the states. Ohio, for example, has to shell out \$1.7 billion during 1992-95, and Tennessee's mandates cost 13 times more today than they did six years ago. One reason for the enormous expense is the uncompromising rigidity of so many of the mandates. The Safe Drinking Water Act requires every water system in the country to monitor for a herbicide used only in Hawaii. The lack of flexibility in substance-abuse mandates forces Oklahoma and other rural states to allocate money needed for alcohol rehabilitation to drug-abuse programs even though the required spending exceeds the demand for these services.

The fastest-growing mandate is health-care spending for the poor. Medicaid mandates tripled from 1980 to 1990, rising from \$11 billion to \$31 billion. In 1995, the mandate is expected to cost the states \$81 billion, or one of every four dollars of their budgets.

To comply with Washington's mandate madness, states and localities are often forced into tax increases that backfire. A recent staff study for the Joint Economic Committee of Congress found that in the 10 states that raised income tax rates the most from 1989 to

1993, unemployment rose and family income declined compared with states that held the line.

During the long Reagan boom, the doubling of state tax collections made the mandates less onerous, but the collapse of growth under Bush and Clinton (despite low interest rates) has pushed state budgets into the red just as more mandates hit. Lower projected growth is expected to cost the states \$33.8 billion in tax revenues over the next five years. According to another recent JEC staff study, the economic slowdown will translate into a \$5 billion revenue loss for California, \$3 billion for New York, and \$1 billion each for Florida, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Tennessee.

The massive loss in projected tax revenue will hit states just as their budget reserves dwindle to crisis levels. The National Association of State Budget Officers reports that budget reserves are expected to fall to only 1.2% of expenditures during 1994, a percentage that is "precarious in these difficult economic times."

THE NEW FEDERALISM. By slowing economic growth, Bush's tax increase adversely affected state budgets without helping the federal deficit, and Clinton's is doing the same. Deprived of revenues from economic growth and beholden to their own balanced-budget requirements, the states are being driven by the unfunded federal mandates into the same sort of self-defeating tax hikes that have already been so costly to California, Massachusetts, and New Jersey.

Policymakers once believed that high-tax states attracted business because they could offer higher-quality public services, such as education. Alas, the evidence no longer supports this conclusion, and policymakers are changing their arguments. Deputy Budget Director Alice M. Rivlin, for example, wants uniform state-tax systems in order to protect high-tax states from tax competition and tax flight.

Rivlin now wants to ban the supply-side incentives that she previously dismissed as chimerical, but her argument is still defective. She assumes that taxes only affect the location of economic activity and not the overall amount. Is the next step a global tax rate to prevent economic activity from shifting among countries?

Congress has shattered federalism by financing its legislation with state and local tax revenues. Governors, state legislators, and mayors, finding their authority preempted, are now in revolt. Let's pray that they succeed.



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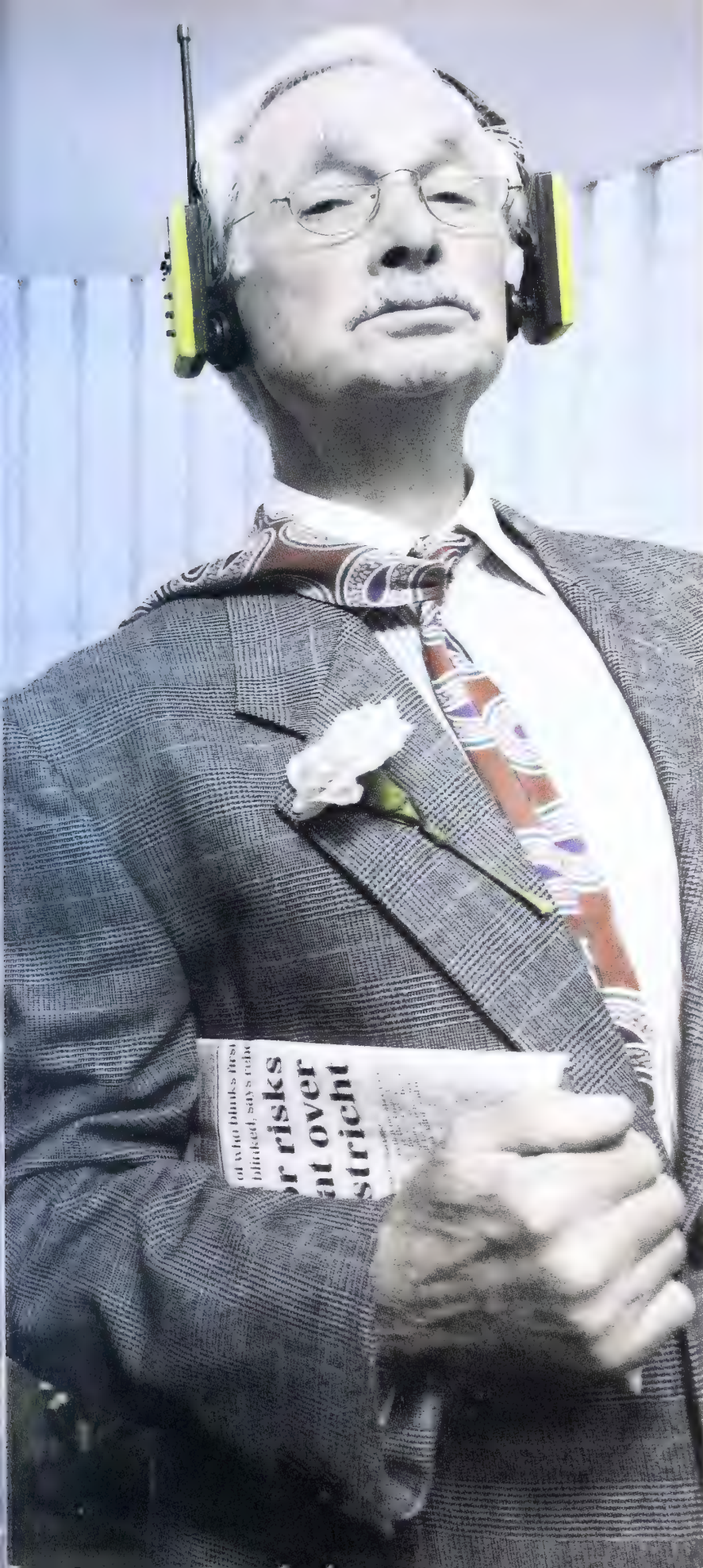
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BY GENE KORETZ

A NATIONAL HEALTH SYSTEM WOULD FOSTER JOB MOBILITY

One shortcoming of the current health-care system is that dependence on employer-provided insurance impedes job mobility (and economic efficiency) by causing people to stay in jobs that offer insurance. In a recent National Bureau of Economic Research (NBER) study, Brigitte C. Madrian compares 1987 turnover rates for employees with high and low medical expenses to gauge the extent of the problem. She concludes that such considerations reduce the voluntary turnover rate of workers in jobs with insurance by 25%.

Such findings suggest that baby boomers with families are likely to benefit from a universal system. Not only would they be free to make more productive job decisions but would also be likely to have more job opportunities. In another NBER study, Madrian and Jonathan Gruber find that many middle-aged workers hang on to jobs and defer early retirement when such a move entails the loss of benefits.

U.S. FACTORIES SHOULD BE HUMMING NEXT YEAR...

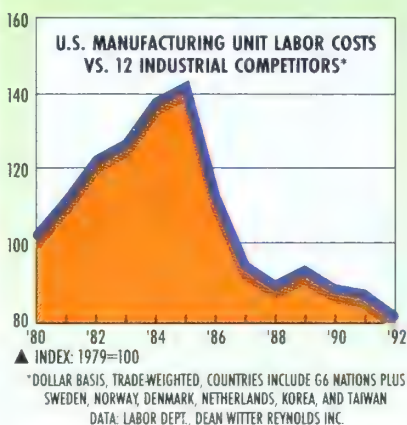
Although auto production may well provide some bounce in the fourth quarter, the manufacturing sector remains in the doldrums, having shed some 245,000 jobs since February. But economist Joseph Carson of Dean Witter Reynolds Inc. is unperturbed. Once the global economy turns up some time next year, he predicts, U.S. manufacturing will be sitting in the catbird seat.

Sparkling Carson's optimism is a wave of announcements by foreign multinationals of plans to set up or expand plants in the U.S. Coming on top of a hefty pickup in overall capital spending, these plans signal growing confidence in the future of American industry.

By their own count—admittedly “far from exhaustive”—Dean Witter economists have totaled up some 40 expansion announcements by foreign manufacturers so far this year, half involving “green field” plants. Led by Japanese auto companies, the list also includes Europeans, Canadians, Indians, and Taiwanese, among others—and industries ranging from steel and chemicals to communications equipment and computers.

Behind this trend is a dramatic rise in U.S. competitiveness. As a result of the dollar's plunge since 1985, and also of wage restraint and faster productivity growth, U.S. unit labor costs have declined sharply against those of other major industrial nations (chart). “America's competitive edge,” says Carson, “is now so large that many foreign companies feel they have to produce goods in the U.S. to assure continued access to North American markets.”

U.S. LABOR COSTS BEAT THE COMPETITION



All of this spells big benefits for the U.S. economy. Carson estimates that the rise of 500,000 to 750,000 units in transplant motor-vehicle capacity—either already announced or being considered by Toyota, Honda, Mercedes-Benz, BMW, Audi, and Mazda—could add \$20 billion to \$30 billion to U.S. output over the next three years, both directly and via multiplier effects. And that doesn't count the impact of foreign investment in other U.S. manufacturing industries.

Partly because of this trend and an anticipated improvement in the U.S. trade position, Carson thinks the economy's growth rate will approach 4% in the next two years. The ultimate result of America's newfound competitiveness, he says, is likely to be a more durable expansion than observers now expect and a welcome reversal of the long-term decline in manufacturing employment.

...BUT WATCH OUT FOR A SUDDEN PICKUP IN INFLATION

If the economy does gather steam next year, it could have a rough passage, warns William T. Wilson, an economist at Comerica Bank. That's because industrial capacity may be a lot tighter than the experts believe.

Wilson recently studied the relationship between capacity utilization and inflation and found that the “natural rate of capacity use—the highest rate compatible with stable inflation—has fallen over the past three decades. In the 1970s, the natural rate was 85%. Now, Wilson says, downsizing corporations have mothballed so much capacity that the natural rate is closer to 82%. Equally important, capacity utilization has changed its stripes from a leading indicator of inflation to a coincidental one so that inflation is likely to pick up “with little or no warning” when operating rates move above the 82% mark.

Since capacity utilization is currently just below 82%, Wilson's estimates imply that accelerated economic growth could touch off inflation, leading the Federal Reserve to hit the monetary brakes. The positive aspect of the new foreign investment wave described above, however, is that it is specifically directed at capacity expansion—and thus should provide more breathing room for economic growth.

With Kathleen Madigan in New York

NAKED GREED CAN HELP EXPOSE MEDICAL FRAUD

As Adam Smith noted some 200 years ago, greed is a powerful force for promoting economic growth and human welfare. But it can also lead to activities that hurt society. What better way to deter such activity than to appeal to the same powerful profit motive?

That, notes health-care analyst I. Loss of NatWest Washington Analysis, is exactly what's now happening in the health-care industry, where fraud is said to run into the billions of dollars. With the federal law that offers corporate whistle-blowers as much as one-third of the civil fines that are collected by Uncle Sam for fraudulent behavior, the action is heating up.

Over the past 12 months, National Health Labs Inc. has agreed to pay the government more than \$100 million to settle civil fraud charges, C.R. Bard Inc. has accepted a \$61 million fine, and Universal Corp. and MetPath, a division of Corning Inc., have agreed to pony up a total of \$39.8 million. Meanwhile, at least seven other health-care companies are under federal investigation.

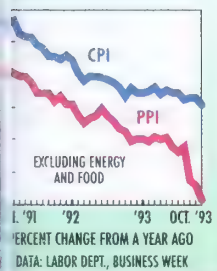
A common denominator in several of these cases, says Loss, is the eager participation of whistle-blowers. And no wonder. In the clinical labs cases, one operative person was awarded a \$21 million for his efforts.

IT TAKES MORE THAN JUST GROWTH TO SET INFLATION OFF

Slow growth means low inflation. So, if the U.S. economy is picking up steam, faster inflation cannot be far behind. Right? That kind of reasoning has left the bond market running for cover, pushing up long-term yields about a quarter-point from their October lows. It has also prompted some economists to expect the Federal Reserve to tighten monetary policy sooner than previously anticipated.

The argument is also wrong. To begin with, the economy doesn't move in a straight line. Even if growth in the fourth quarter is greater than 4%, as now seems increasingly likely, the economy's underlying trend of about 3% growth is bound to reassert itself in 1994. At that pace, inflationary pressures from either wages or prices are unlikely to begin building until 1995.

CORE INFLATION IS STILL HEADED DOWN



Moreover, this expansion is different in two key respects. First, productivity gains are accounting for an unusually large portion of economic growth. That keeps unit labor costs low, robbing inflation of its basic fuel. Also, competition—both global and domestic—has never been stiffer at any time during the postwar era.

As if to drive these points home, producer prices plunged in October, and consumer prices remained tame (chart). Job gains last month were very good but not great, while third-quarter productivity rebounded strongly from its poor first-half showing. All this comes amid signs that consumers are spending freely, taking on installment debt at a faster clip, and that the factory sector is gaining momentum.

THE GAS TAX FUELS THE RISE IN THE CPI

The surprising 0.2% drop in the producer price index in October was an exclamation point on the broad absence of upward pressure on goods prices. The fall is even more apparent when a 6.3% hike in wholesale gasoline prices, partially reflecting refineries' compliance with environmental rules on cleaner-burning gas, is excluded. If both energy and food are excluded, the core PPI fell 0.1% in October. Annual inflation for the overall PPI is only 0.1%, while core inflation is 0.1%. That's probably the lowest core rate in three decades, well before the government began calculating it in 1974.

Low-car prices led October's drop. Although sticker prices on most cars rose last month, increases were small-

er than in the past, resulting in a seasonally adjusted decline of 3.9%. Prices of newspapers and periodicals also fell sharply, as did those for computers and trucks.

The 0.4% rise in the October consumer price index was more in line with expectations than was the PPI. But even here, there are no mounting price pressures. Energy prices leapt 1.9% last month, reflecting the 4.3¢-per-gallon hike in the federal gasoline tax on top of the more expensive oxygenated fuel. Food prices rose 0.5%.

Elsewhere, consumer prices advanced 0.3% in October, following a 0.1% increase in September. Annual core inflation for the CPI remained in a downtrend last month, falling to 3%—the lowest rate in two decades. Against this backdrop, the Federal Reserve will have no reason to shift its policy stance at its next meeting on Nov. 16.

EFFICIENCY GAINS HELP TO MUZZLE COSTS

But if businesses can't raise prices, profits are taking it on the chin, right? That's another proposition being bandied about, but it, too, is wrong. Corporate earnings are doing very well, thank you, because low interest rates have cut the cost of servicing debt and because profit margins are increasing. Unit profits are up because of lower costs, not higher prices.

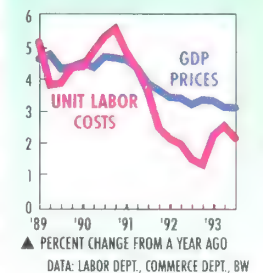
Slower growth in unit labor costs is a direct result of solid gains in productivity, combined with the slower pace of wages and benefits. Productivity of non-farm businesses, measured as output per hour worked, rose at an annual rate of 3.9% in the third quarter, a rebound from declines of 1.8% and 0.4% in the first and second quarters, respectively. During the past year, productivity has risen 1.4%, and compensation is up 3.2%, causing a 1.8% advance in unit labor costs.

The result: Economywide inflation, as measured by GDP prices, is greater than the pace of unit labor costs (chart). That's why profits per unit of price-adjusted output for nonfinancial companies are near a record high.

This point applies especially to manufacturers, where productivity is exceptional. Factory productivity rose 2.4% last quarter, and over the past year, it has grown 5%, resulting in a 2% drop in unit labor costs. Even if inflation in producer prices of finished goods is zero, as in October, manufacturers' unit profits are still rising.

Of course, productivity always rises early in an ex-

WHY PROFIT MARGINS ARE RISING



Business Outlook

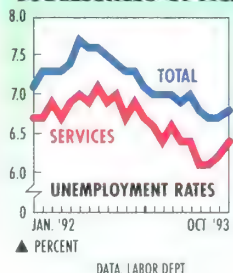
pansion, but this time the gains may be more than just cyclical. Since the recovery began 2½ years ago, productivity has grown at an annual rate of 2.3%. That's slightly below the average of past upturns, reflecting the weak recovery. However, the contribution of productivity gains to economic growth is a postwar record.

HIRING WILL NOT FUEL PRICE PRESSURES

Still another argument making the rounds among some bond traders and economists is that the latest pickup in hiring portends faster inflation.

Certainly, job growth this year is the strongest since 1989. In October, 177,000 new slots opened on nonfarm payrolls on top of the healthy 162,000 gain in September. Manufacturers added 12,000 new jobs—the first gain since February. And employment in the private service sector increased by 142,000 last month, led by temporary-help agencies, health care, and financial services.

SERVICES LEAD THE JOBLESSNESS UPTICK



Stronger hiring, though, doesn't necessarily mean faster growth in wages and prices. For one thing, gains in productivity will offset the larger payroll bill. In addition, as the job picture brightens, more people start to look for work. And with a large pool of available labor, businesses don't need to raise wages to attract workers. Hourly earnings rose 0.5% in October, to \$10.92,

but annual pay hikes are only 2.5%, the same pace as last year.

In October, some 739,000 persons entered the labor force, but many did not find work. That lifted last month's jobless rate from 6.7% in September to 6.8%. Even with the better pace of hiring, joblessness could still be above 6% a year from now. That means wage growth may not begin to fuel inflation until early 1995.

Not surprisingly, most of the new job seekers are hunting in the service sector because that's where hiring has been the strongest. As a result, the unemployment rate among service industries rose for the second straight month, bumping up to 6.4% in October, from 6.1% in July and August (chart).

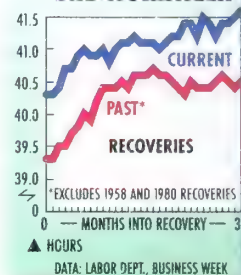
Does this extra unemployment mean the expansion is trouble? Hardly. Job growth is healthy enough to keep consumer spending and the economy on an upward track. And for those seeking factory jobs, the October gain in payrolls was especially good news. That's because manufacturers may no longer be able to increase their output by simply extending the workweek.

As it is, a rising factory workweek is unusual at this stage of an expansion. In the past, the workweek stopped rising about one year into the upturn. This time, weekly hours continue to increase (chart). In October, the workweek in manufacturing climbed to 41.6 hours, a length hit only one other time in the postwar era, in early 1966.

Moreover, recent factory data suggest manufacturers will need to lift output—and thus payrolls—soon. New orders rose 0.7% in September, while shipments increased 1.4% and inventories fell 0.3%. Swings in sales and stock levels pushed the ratio of inventories to sales to 1.46 in September, the lowest on record.

Even the continued upturn in factory output doesn't bolster the argument that faster inflation is just around the corner. Industry activity is still below the point where capacity constraints lead to price hikes (page 28). And with extra industrial capacity, along with the high number of unemployed and improved productivity, that will keep inflationary pressures at bay, even as this economy enjoys a strong fourth quarter.

FACTORIES STRETCH THE WORKWEEK



THE WEEK AHEAD

INDUSTRIAL PRODUCTION

Monday, Nov. 15, 9:15 a.m.

Industrial output probably increased a solid 0.5% in October, according to the median forecast of economists surveyed by MMS International, a unit of McGraw-Hill Inc. That's suggested by the rise in factory jobs and a record long workweek. The expected gain in output—the fifth rise in a row—indicates that the capacity utilization rate for all industry jumped to 81.9% in October, from 81.6% in September.

BUSINESS INVENTORIES

Monday, Nov. 15, 10 a.m.

Inventories held by manufacturers, wholesalers, and retailers probably

shrank by a small 0.1% in September, after rising 0.2% in August. Factories have already reported a 0.3% drop in their stock levels. Business sales likely rose an additional 1% in September, on top of a 1.1% increase in August. Factory shipments were especially strong in September, jumping 1.4%. Retail sales also rose, though by a smaller 0.1%.

HOUSING STARTS

Wednesday, Nov. 17, 8:30 a.m.

Homebuilding likely advanced for the third consecutive month in October, with starts rising to an annual rate of 1.37 million, from a 1.35 million pace in September. Single-family housing starts, which fell an unexpected 3% in September, probably bounced back sharply last

month. However, the recent climb in mortgage rates may mean a small pause in the housing recovery later in the fourth quarter.

MERCHANDISE TRADE DEFICIT

Friday, Nov. 19, 8:30 a.m.

The MMS economists forecast that the trade deficit widened to \$10 billion in September, from \$9.7 billion in August. Rising imports, which edged up only 0.8% in August, likely caused the small increase. Exports were probably little changed in September after rising 3% the previous month. The expected trade gap for September confirms that foreign trade was not as much of a drag on the third-quarter economy as it was in the first half.

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WHAT IF NAFTA LOSES?

THE CONSEQUENCES FOR THE WORLD COULD BE DIRE

Even for a President who practices the art of high-wire politics without a net, the North American Free Trade Agreement is a heart-stopper. Teetering toward a scheduled Nov. 17 House showdown still short of the votes needed for victory, Bill Clinton knows that a NAFTA defeat could send a chill through the global economy and hobble his Presidency.

To understand why, consider this bleak morning-after scenario: On Nov. 18, a shell-shocked President boards Air Force One for the longest flight of his career. As he heads to Seattle for the meeting of the Asian Pacific Economic Cooperation forum, aides inform Clinton that anti-Yanqui protests have broken out in Mexico. Wire stories chronicle the peso's plunge and warn of a global drift toward protectionism. In Seattle, things get worse. A stone-faced Clinton listens as Chinese President Jiang Zemin rebuffs pleas for better relations. When Clinton gamely exhorts 14 Pacific Rim leaders to broaden trade with the U.S., they snicker at the thought that he can't even broaden it in his own backyard.

Meanwhile, in Washington, pundits are declaring the Clinton Presidency a Carteresque flop. Nervous Democrats react by distancing themselves from the Administration's ambitious domestic agenda. In Dallas, thousands whoop it up as independent Ross Perot talks about 1996.

ZEALOUS CONVERT. Far-fetched? Hardly. If NAFTA loses, it will be a stunning defeat, the first rejection of an international-trade accord since Congress gave the President authority to negotiate trade matters in 1934. A defeat could cast a pall over Clinton's Presidency and tarnish the U.S.'s reputation as a world trade leader. More is at stake than just trade. Even Clinton himself admits as much. NAFTA, he said in a Nov. 10 press conference, "has become the symbol of where we want to go in the world."

Indeed, the NAFTA fight is about far more than formalizing an already extensive network of continental trade (page 40). Failure of the accord would be a "tragedy," says William J. McDonough, president of the Federal Reserve Bank of New York, because it would "exacerbate protectionist trends around the world." Adds Robert E. Rubin, Clinton's White House economic coordinator: "It's enormously important to prevail. If we recoil against change, we will stagnate and decline."

Certainly, no one can accuse the President of shrinking from the battle. After lukewarm support early on, Clinton in the final days before the vote has been passionately scrambling for votes with promises of White House favors. He has lashed out at labor, one of his party's core constituencies. And he finally turned the White House guns on Perot by sending Vice-President Al Gore to debate the Texan on Nov. 9 (page 38).

That the NAFTA battle has taken on such dimensions is surprising, given the banality of the fine print in the 2,000-page trade pact. Over the short term, the agreement is expected to have an imperceptible impact on the \$6 trillion U.S. economy. Mexico is indeed the biggest winner—mainly at the expense of low-wage countries such as Korea, Taiwan, and Ireland. But the U.S. and Canada are likely to benefit by the elimination of the few tariffs left in North America. And the accord should create a strong trading bloc, spurring economic growth across the continent.

There's an additional sweetener for the U.S., too: new rules that give trade benefits only to products with high percentages of North American-made parts will make it unprofitable for Japan and European multinationals to assemble finished products in Mexico from foreign-made parts. That means increased investment in U.S. manufacturing facil-



THE GREAT DEBATE Al Gore

REPERCUSSIONS IF NAFTA GOES DOWN

TIGER A "no" vote would be the first congressional rejection of modern-day President's trade agreement. It would shake international confidence in the Clinton administration and signal an American retreat from global leadership.

WARRIOR ON TRADE Clinton would be embarrassed at the Nov. 20 Pacific conference, a confab hosting in Seattle to discuss Japan would move more on U.S. demands for market access. Worldwide trade in Geneva could die.

BROTHER, CAN YOU SPARE A PESO?

Mexico would seek out investments from Japan and Germany, and anti-American sentiment south of the border would grow. Hopes of improving Mexico's standard of living, slowing illegal immigration to the U.S., and cleaning up the border could be dashed.

RETREAT ON REFORM Growing U.S. investment in Latin America would slow, and moves toward political and economic reform in the hemisphere could be dealt a setback. Ruling Canadian Liberals would be emboldened to abandon trade liberalization with the U.S.

CARTER REDUX? At home, President Clinton would look weak and ineffective. Democrats would be less likely to vote for his domestic programs. Clinton badly needs congressional support for such hot-button issues as health-care reform.

WHO LOST NAFTA? The Democratic Party would play the blame game over the loss. The split could help the GOP capture the Senate in 1994.

DATA: BUSINESS WEEK



his own visual aids against Ross Perot's pie charts and photographs of Mexican slums.



WAR OF WORDS: THE TWO SIDES OF NAFTA

IF NAFTA PASSES, THESE ARE THE WINNERS:



PRESIDENT CLINTON With a NAFTA win, the White House chalks up a crucial legislative victory it can use as leverage to push for new trade liberalization measures from U.S. trading partners.

BIPARTISANSHIP

GOP Senate leader Bob Dole and other Republicans who have long supported NAFTA can offset their images as hard-line, grillock politicians.



MEXICO President Carlos Salinas, who has staked his country's future and his own presidential place in history on NAFTA, can hand-pick a successor who will follow in his footsteps and continue market-opening reforms.



THE AUTO INDUSTRY Detroit will be able to produce cars in the U.S. and sell them in Mexico—which will significantly boost auto makers' exports.



A NEW ECONOMIC ORDER High-tech industries and skilled workers will profit from emerging world market that rewards those who produce the best-quality goods at the lowest possible prices.

ities. "We certainly will invest more in the U.S. than we previously would have," says Horst Langer, who oversees U.S. operations for Germany's Siemens. Indeed, Langer argues that "technically sophisticated, high-value goods could only be made in the U.S." under NAFTA.

The fallout from a defeat, however, could go far beyond the three North American nations. Already, global markets are showing jitters over a possible "no" vote. If a defeat were viewed as a victory for protectionism, David Malpass, director of international economics for Bear, Stearns & Co., envisions a contraction in world trade and a slowdown in investment flows. "You can expect to see a falloff in world stock markets of 10% or more," Malpass predicts.

Nowhere would a NAFTA loss be felt more strongly than in Mexico and in Latin America, where the accord is seen as a major step along a 10-year march

toward free-market reforms. Mexican President Carlos Salinas de Gortari stands to lose the most. With selection of his successor overdue, Salinas worries that his PRI (Institutional Revolutionary Party) could lose its 64-year hold on the nation's government to a less reform-minded regime. "The most important reason to vote for NAFTA is to lock in [Mexico's] reforms," argues John H. Bryan Jr., chairman of Sara Lee Corp.

BIG RIPPLES. Indeed, in the wake of a nay vote, Salinas' well-received economic initiatives—privatization, fiscal reform, and the push for increased productivity—could be thrown into reverse. The overheated Bolsa, inflated by free-trade expectations, could plunge. And to prevent capital flight, interest rates would have to jump dramatically.

The strain on Mexico was already showing during the week before the vote. The peso plunged 4.8% vs. the dol-

lar on the eve of the Perot-Gore debate. The day of the debate, in the nation's weekly Treasury-bill auction, the Mexican T-bill rate jumped four points, to 17%. The peso recovered, thanks to intervention by Mexico's central bank, market sources say. But market analysts say the auction is an indication that rates could climb perilously high if NAFTA goes down—potentially turning Mexico's current slowdown into a recession. "This is one of the greatest moments of uncertainty that we have faced in the past decade," says Jesús Reyes Heróles, chief economist of the Grupo de Economistas y Asociados, a Mexico City consulting firm.

Farther south, reform-minded leaders would see the "no" vote as an outright betrayal. Under the plan originally hatched by former President George Bush, other Latin countries and Caribbean Basin nations could sign onto the

THE TRADE PACT FAILS, WE ARE THE WINNERS:



DEFEATED LABOR After years of declining membership, America's unions have made a defeat-or-die issue; if they win, it's a much-needed shot in the arm.



ROSS PEROT That sucking sound will be the populist taking a deep breath before he starts his 1996 campaign.



AMERICA FUSTERS Knocking down the accord will boost Pat Buchanan and others.

BILATERALISM With a major blow having been dealt to the emerging North American trading bloc, the U.S., Mexico, and Canada likely will begin negotiating their own trade agreements with governments in Asia and Europe.



LOW-TECH WORKERS U.S. industries such as fruit- and vegetable-growing and broom-making will face less competition from low-wage Mexican rivals, at least for the time being.



reement, eventually creating a hemispheric free-trade zone to dwarf any in Europe or Asia. Chile has already said it wants to join the bloc; Argentina and Colombia are close behind. "Defeat would be a slap in the face to all leaders in the Western Hemisphere who have chosen the capitalist road over government-controlled economies," says Robert E. Ham, chairman of Salomon Inc. Conis César Gaviria, President of Colombia. "Failure to approve NAFTA would considerably damage the atmosphere of economic understanding between North America and Latin America."

Then there's Asia. With relations between the U.S. and China in a downward spiral, Clinton has agreed to host the first meeting of American and Chinese leaders since the 1989 Tiananmen Square massacre. The parley is slated to begin in Seattle a mere 48 hours after the NAFTA vote. The U.S. sees the con-

ference as a chance for Clinton to reassert U.S. displeasure over Beijing's abuse of human rights and spread of missile technology—and convince President Jiang to open his country's gigantic market to U.S. goods. But Clinton could be thwarted if he limps in as a battered victim of NAFTA-phobia. "To say the timing [of the meeting] is unfortunate is an understatement," sighs one worried senior Administration official.

Jiang isn't the only reason Clinton may end up sleepless in Seattle. With NAFTA's defeat, Japanese Prime Minister Morihiro Hosokawa might wonder aloud to Clinton how the U.S. can fault Japan's inward turn on fiscal and political reforms when Congress has rejected his expansionist trade policies. Other Asian nations are sure to shudder, too. The defeat of NAFTA, says Tony Miller, director general of Hong Kong's Trade Dept., "would be a message to the world

that the U.S. is closing in on itself, becoming introverted. That is not a reassuring message to Asia."

PEROT FODDER. A further worry is the effect of a "no" vote on the General Agreement on Tariffs & Trade. The U.S. has taken the lead role in the 7-year-old, 109-nation Geneva-based trade talks that are scheduled to conclude by Dec. 15. A nay vote also would signal a U.S. retreat from trade leadership and undercut the authority of American trade negotiators in both Europe and Asia. "The question is U.S. leadership in the world," says House Foreign Affairs Committee Chairman Lee H. Hamilton (D-Ind.). "That's going to be seriously hurt."

Indeed, some trade experts fear that the President won't have the clout to push the current round to a successful conclusion. "If Ross Perot can scare the American people about a trade agree-

Cover Story

ment with two countries, he'll have an even better case against an agreement with 109," worries Gerrit Jeelof, chairman of the European American Chamber of Commerce. Adds Sir Denys H. Henderson, chairman of Britain's Imperial Chemical Industries PLC: "The next two months are absolutely critical for world trade. NAFTA and GATT are absolutely imperative if we're ever going to pull out of this very low-growth environment. My fingers are firmly crossed."

grade labor unions, demagogues like Perot, and reactionaries like Pat Buchanan—the most mean-spirited on the right and the left," says William Kristol, head of the Project for the Republican Future, a GOP think tank. "That aids the prophets of fear in both parties."

For Clinton, the first big casualty could be his agenda for next year. Democrats would be unlikely to fall in line behind Clinton's domestic-policy initiatives, which will include such contro-

damaged Clinton could cost the party its current 12-vote edge. "The Republicans are going to be highly energized," says University of Wisconsin political scientist Charles O. Jones. "They'll work hard at getting the best candidate they'll attract more money, and they picture the Democrats as incapable of running the government."

CRUMBLING CORE? Even more worrisome to the White House are the rifts in the Democratic Party that have widened during the NAFTA fight. In last year's campaign, Clinton ran—and won—as a different kind of Democrat: one ready to defy the party's traditional coalition. Clinton embraced NAFTA as a vehicle to attract business support and middle-class suburban voters.

But the party's core constituencies are fighting back with unexpected fury using NAFTA as their rallying point. Organized labor, blacks, and some environmental and consumer groups are fighting for nothing less than the head and soul of the Democratic Party, arguing that good jobs are more important than economists' abstract arguments about the benefits of free trade.

If traditional Democratic constituencies are in control, it would be difficult for Clinton to turn his 43% plurality in 1992 into a majority in '96, says A. From, president of the centrist Democratic Leadership Council. "You can have a political party that is run by declining interests and expect it to expand its base," From says. "The problem for the party before Clinton was that it was dominated by forces that looked backward rather than by forces that wanted to lead the party into the future."

Who will win out in the end? In the battle's waning stages, the White House has acknowledged how tight the infighting is by deliberately raising the stakes. In his closing days' rhetoric, Clinton has transformed the struggle from an inconclusive economic debate about wages, jobs, and investment flows into something more cosmic: A huge foreign policy test in which America's leadership in the post-cold war era is on the line.

That may yet turn out to be an exaggeration, even if NAFTA goes down in flames. But it's hard to overestimate the importance of the vote to come. "This is a choice between the politics of fear and the politics of hope," said Clinton in his rough-and-tumble showdown with Perot. But for Clinton, there is no choice. To avoid a grim plane ride to Seattle, he must convince America that a failed NAFTA has fearful consequences.

By Douglas Harbrecht, Susan B. Gossard, Owen Ullmann, and Paul Magnuson in Washington, with Geri Smith in Mexico City and bureau reports

NAFTA: IT'S NOT REALLY ABOUT JOBS

PLEDGING ALLEGIANCE AT AN ANTI-NAFTA RALLY IN TAMPA



THE PRO-NAFTA VIEW

NAFTA will produce a gain of 170,000 U.S. jobs during the next decade, says a study by economists Gary Hufbauer and Jeffrey Schott.

THE ANTI POSITION

NAFTA will mean a job loss of 550,000 in the next 10 years, says a forecast by the Economic Policy Institute in Washington, a think tank.

THE CONTEXT

With or without NAFTA, DRI/McGraw-Hill figures overall U.S. employment will grow by about 18 million by 2004.

If the accord fails, he frets: "I fear the reaction will be a GATT failure the next month. Then, all sorts of fortresses will start going up."

At home, meanwhile, the stakes are just as high. Still struggling to overcome fears about declining wages and plants moving abroad, Clinton is forced to rely on Republicans for support. That's a perilous position to be in: The GOPers themselves are split between voting their free-trade convictions and the mischievous impulse to watch Clinton self-destruct. In fact, a NAFTA belly-flop would likely wound both parties. "It will strengthen the hand of retro-

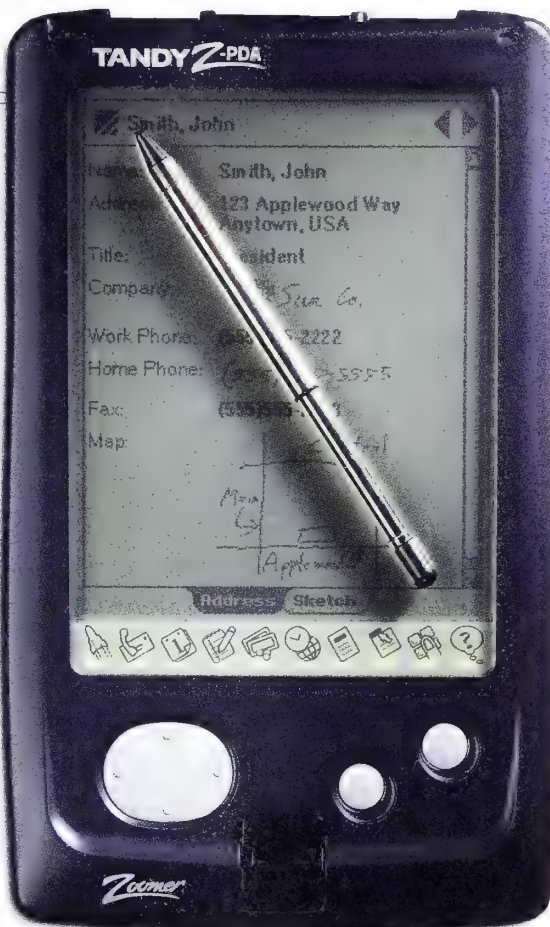
versal issues as a health-care overhaul and welfare reform. "Members of Congress will be panicked," says Democrat strategist Ted Van Dyk. "If the President goes down, they'll be afraid of supporting him on almost anything."

An embarrassment on NAFTA, following so closely on the heels of defeats in the New Jersey and Virginia gubernatorial races and the New York City mayoral vote, also bodes poorly for Democratic prospects in the '94 midterm elections. The Presidential party traditionally loses seats in the mid-terms. In the Senate, 21 of the 34 seats up for reelection are held by Democrats, and a

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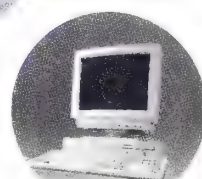
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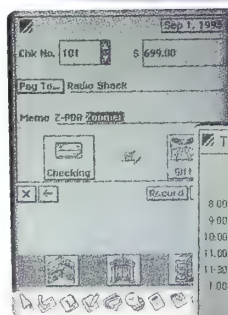
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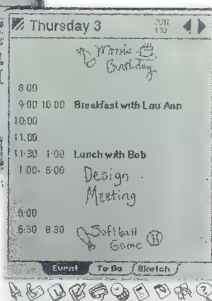
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A GOP STRONGHOLD SAYS: PIPE DOWN, ROSS



The Red Blazer's rafters are rich with the symbols of New Hampshire's rustic past: Wooden rakes, antique photos, and mounted deer heads fill this restaurant on the outskirts of Concord, the state capital. But when it comes to politics, sentiment doesn't count for much here.

Nine local residents talked with BUSINESS WEEK during the Nov. 9 debate between Vice-President Al Gore and anti-NAFTA crusader Ross Perot. The consensus: Emotional calls to protect America's standard of living by rejecting the free trade pact don't cut it in this largely Republican city of 36,000.

CONFUSION. A year ago, Concord voters looking for change gave Bill Clinton a solid boost in the Presidential election. Now, they're swinging behind NAFTA—despite a strong 17% showing for Perot in the race for the White House. One reason: Economic fears that contributed to Perot's support have since cooled. The area's unemployment rate has fallen to 4.4%, well below the national average, and on-time payments of city property taxes have risen sharply since early 1992. "There's a chance of something good happening if NAFTA passes. I don't see what good happens if it doesn't pass," says Dean J. DeLaHaye, an electronics technician who last year lost his job, then found a lower-paying position after nine months out of work.

If these residents are any indication, Perot's debate performance didn't play well. Rather than carve out a foothold for the 1996 Presidential elections, the Texan's performance may have damaged his credibility. Laughter erupted in the Red Blazer's bar the minute the feisty business executive pulled out his colorful charts. "There he goes," quipped retired cable-TV system operator Robert Baxter. When Perot later professed sympathy for Mexican workers exploited by low-paying jobs, housewife Ellen Fries threw

up her hands at the apparent contradiction: "If Mexicans have no money, how does refusing to buy their products help them? It doesn't add up." Nationwide, viewers shared her confusion: Sympathy seemed to swing markedly pro-NAFTA (chart).

New Hampshire has already endured the reshaping of its business community by regional and global competitors. The state's largest electric

fear out of NAFTA. The state's proximity to Canada, moreover, makes people here relatively open to cross-border trade. Weekends find Canadian auto-racing fans flocking to a nearby speedway and shopping in Concord stores. Regina Baxter, a local artist whose works have been bought by Canadian tourists, says the anti-NAFTA furor ignores the benefits of trade with Canada. "We're hearing about Mexico all the time, and no one is saying anything about Canada," she says. After the U.S. signed a free-trade agreement with Canada, New Hampshire shifted its business and tourist recruitment efforts to Canada—from Europe and elsewhere.

Job losses? Giant sucking sound? Tonight, it's not so big a worry. Attorney David Fries, Ellen's husband, discounts Perot's argument that cheap Mexican labor will usurp U.S. jobs. True, Fries says, some jobs will head south regardless of which way the NAFTA



utility, Public Service Co. of New Hampshire, fell into bankruptcy in 1988 and was sold last year to a Connecticut power company. And the collapse of the state's real estate boom five years ago forced the FDIC to consolidate its five largest banks into three. All now are owned by companies from outside the state or nation.

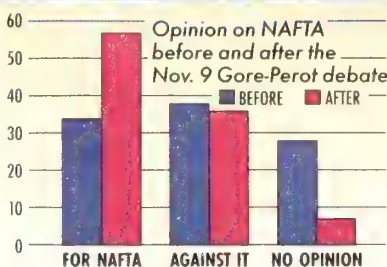
Residents say the wholesale restructuring has helped take some of the

TA vote goes. But if the treaty passes, he says, "we're more likely to increase jobs in companies by expanding the market." Moreover, he adds, environmental opponents to NAFTA should view economic self-interest as the best way to counter lax antipollution enforcement in Mexico: "There's a higher likelihood of new environmental laws if we have a real economic relationship rather than shut them out."

It was a good night, then, for Gore, whose challenging of Perot's facts and logic seemed to score with residents here. But the TV fireworks don't necessarily translate into support from New Hampshire's representatives in Congress. Its two senators and two U.S. representatives are split evenly over NAFTA—with the state's lone Democrat, Representative Dick Swett, opposing the pact. "There's no love here for the Clinton Administration," says John Udalo, a loan officer. NAFTA may fly in Concord's Red Blazer, but Congress is likely to be less friendly.

By Gary McWilliams in Concord, N.H.

THE GORE EFFECT



▲ PERCENT
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NAFTA would fulfill the promise of a continental market



The fact is, there's little border left between the U.S. and Canada, as tariffs have come tumbling down in the wake of the two nations' 1989 bilateral free-trade agreement. And to the south, the 2,000-mile border with Mexico has been growing fuzzier by the day. Since Mexico began opening its doors in 1986, U.S. exports to the country have more than tripled, to \$40.6 billion. That makes it America's third-largest trading partner, just behind Canada and Japan. And the once-tentative U.S. industrial presence in Mexico has mushroomed into a full-scale invasion, as giants such as Ford, General Electric, and IBM have moved beyond slapping up *maquiladoras* to weaving Mexico into North American production strategies.

POLARIZED DEBATE. Passage of NAFTA would push integration into high gear. The biggest U.S., Mexican, and Canadian companies would move quickly to shut down inefficient plants and concentrate production where it makes the most sense. The winners, whether American Telephone & Telegraph Co. or Mexican glass producer Vitro, would be able to tap cheap labor for some products, while using more skilled work forces for others. A burst of alliances among the carmakers, telecommunications companies, brewers, retailers, and service companies of the three countries would create continental-scale enterprises that could compete against the world's best (map).

In the end, though, the real test of NAFTA will be whether it delivers rising prosperity on both sides of the Rio Grande. For Americans, the trade deal will need to produce more well-paying jobs than it destroys. For Mexicans, NAFTA has even bigger promises to keep: It must provide rising wages, better benefits, and an expanding middle class with enough purchasing power to keep buying goods from the U.S. and Canada. Both scenarios are plausible, but neither is certain.

One big reason for business confidence is that NAFTA provides a more secure home base. A little-noticed mechanism in the accord has enormous consequences: high-local-content rules that favor companies operating within North American borders. It creates, in effect, a continentwide industrial policy that prevents Asian and European companies from exploiting the deal. One example of how it would work: As NAFTA is phased in, cars assembled at the factory Mercedes-Benz is planning in Alabama would eventually need to have 62.5% of their components made in North America to enter Mexico or Canada duty-free.

Indeed, many European and Japanese corporations are already scrambling to move production to North America—

NORTH AMERICA INC. IS TAKING SHAPE

As NAFTA is phased in, Mexico will supply more citrus, vegetables, and fruits. The U.S. will ship south more meat and grains, including corn and soybeans. Canadian wood exports will grow.

The Big Three expect to boost exports to Mexico to 60,000 vehicles next year from 7,700 this year. Over time, Mexico will win some manufacturing jobs, such as assembly of small cars and light trucks for the region.

Wal-Mart, J.C. Penney, and Radio Shack are part of a U.S. retail move into Mexico. Add fast-food franchisers and powerhouses such as Procter & Gamble, and it's an invasion.

TELECOM

Massive integration is under way. Canada's Northern Telecom builds switches in North Carolina and installs them in Mexico City. Southwestern Bell owns a piece of Teléfonos de México. AT&T, MCI, and Sprint will try to move into long distance in Mexico, as they did in Canada.

thereby creating jobs for North American workers. And while foreign critics say the content rules amount to Fortress America, many U.S. companies retort it's tit-for-tat with less-than-wide-open Asia and Europe. Says Kenneth L. Lay, CEO of Houston's Enron Corp., an energy company: "If there are countries that want to protect their borders, at least we have a very large free-trade zone of our own" (charts, page 42).

The process of knitting North America Inc. together has been under way since 1965, when the U.S. and Canada signed the Auto Pact allowing free movement of cars and parts. Then, in 1989, free trade was expanded to include the rest of the U.S. and Canadian economies. That was the end of a system in which inefficient Canadian plants, often units of U.S. giants, struggled to serve the small Canadian market. Instead, companies integrated operations across the border.

A similar process is going on with Mexico. Integration began in 1967, when Mexico allowed U.S. companies to ship components duty-free across the border and then assemble them in *maquiladoras*, provided that the completed goods were shipped back to the U.S. With Mexico in desperate straits following the 1982 debt crisis,

the U.S. had leverage to pry open Mexican markets. Tariffs fell after Mexico joined the General Agreement on Tariffs & Trade in 1986. And when President Carlos Salinas de Gortari was elected in 1988, market-opening accelerated. NAFTA would be the culmination of this process.

Now, Mexico could be a gold mine for U.S. and Canadian companies, and they are remaking their strategies to cash in. To satisfy Mexico's growing appetite for northern goods, many companies are boosting exports, and

in the process, adding capacity at home. Already, surging demand for capital goods and other industrial supplies has generated a surplus in U.S. trade with Mexico that totaled \$5.6 billion last year. Other companies, meanwhile, are expanding their Mexican operations, or moving in for the first time, knocking off inefficient Mexican rivals in the process. And the big multinationals, such as auto and appliance companies, are shuffling

assets, revamping operations to be more competitive globally, and sending some jobs to Mexico while consolidating others back home.

Whatever the strategy, companies across the landscape have export fever. If NAFTA passes, Caterpillar Inc. expects exports to Mexico to rise 25%, to \$250 million. Cal-State Lumber Sales has seen revenues rise to \$167 million, up from just \$14 million in 1989. Now, Cal-State is opening a high-tech lumber mill in Reno, Nev., to meet demand.

NAFTA would also open Mexico to state-of-the-art business services in such areas as banking and telecommunications, where it is notoriously deficient. Already, roughly a dozen Canadian and American banks are planning to open subsidiaries in Mexico next year to tap a market expected to grow at a 10%-to-15% pace over the next three years. The future also looks bright in insurance, where premiums are expected to reach \$50 billion in 15 years, up from just \$5 billion last year. With NAFTA allowing U.S. insurers full access to the market by 1996, Americans are heading south. Hartford's Aetna International Inc. recently paid \$100 million for a 30% share in Mexico's second-largest insurer, Seguros Monterrey.

LONG DISTANCE. Telecommunications companies are jumping into Mexico with exports and expanded operations, too. Since Mexico has only eight phones for every 100 people, Northern Telecom says it expects sales there to grow as much as 50% a year, from an estimated \$200 million currently. Meanwhile, it's boosting employment at its Monterrey plant. AT&T hopes to nearly double its share of Teléfonos de México's central-office switching needs, to 33%, within three years. And after 1996, when Telmex is to lose its monopoly on domestic long-distance calls, AT&T, MCI Communications, and Sprint will tap that market, just as they did when Canada allowed long-distance competition in 1992. Already, Southwestern Bell Corp. owns 10% of Telmex, and Bell Atlantic Corp. last month sprang for \$1 billion to buy 42% of Iusacell, Mexico's No. 2 cellular-phone company.

U.S. consumer-products companies are also hoping to feed, beautify, and entertain Mexican consumers, mostly through stepped-up exports. Last year, Mexico imported \$450 worth of U.S. goods per capita, and the nearly 30 million middle-class Mexicans are hungry for more. Chicago's Dean Foods Co., for instance, has seen Mexican sales of its ice cream and milk climb to \$10 million, up from nothing 18 months ago. Despite duties that average 10%, Procter & Gamble Co. exports \$100 million worth

FINANCIAL SERVICES

Newly deregulated Mexican financial markets will grow by 15% annually in the next three years. Credit cards, mortgages, and life and property insurance are all virgin markets in Mexico.

TEXTILES

Strong local-content rules will help revive U.S. textiles, which will supply apparel manufacturing returning from Asia to Mexico.

ENERGY

Mexico's oil patch remains off-limits, but NAFTA would spark a boom for U.S. oil field services and power generation. The U.S. would still be dependent on Mexican oil imports.

Cover Story

of its products to Mexico a year and expects that to double in five years. Sales in Mexico, from six plants employing 5,400 workers, are more than \$1 billion.

To sell even more in Mexico, retailers are moving in, building chains of stores across the country and cloning U.S. distribution methods. J.C. Penney Co. plans to open its first Mexican store soon and will build 16 more by decade's

trucks. Currently, "guys run around in trucks delivering fresh chickens on blocks of ice with a tarp over them," says President Donald L. Griffin. But to bring Mexican companies up to First World standards, Mexico's technocrats are imposing tougher regulations aimed at boosting use of refrigerator trucks.

The real promise for bigger corporations is a deeper level of integration

jection TVs in Westmoreland County, Pa. Both companies figure that lower transportation costs and other factors make cheaper to produce such sets in the U.S.

Autos, among the first to test the North American production concept, are preparing for a second wave of integration. One pro-NAFTA group, the Institute for International Economics, suggests U.S.-Mexican trade in cars and parts could triple, to \$25 billion, by 1995 up from \$8.3 billion in 1990. That's because NAFTA would let Detroit export much more to Mexico, now heavily restricted. The Big Three say they'll send 60,000 vehicles to Mexico in the treaty's first year, up from 7,700 this year.

U.S. SHOW. But over time, more production of inexpensive cars is bound to move south. Already, Nissan de México is exporting Sentras to Canada and light trucks back to Japan, while Ford's super-efficient Hermosillo plant builds Escorts and Tracers for U.S. consumption. Ultimately, this could make Mexico a major production center for "entry-level, price-sensitive small cars and light trucks for the entire North American region," says Massachusetts Institute of Technology economist James P. Womack. Meanwhile, NAFTA gives U.S. and Canadian auto-parts producers an opening to take business away from highly protected Mexican makers. Adds Womack, "Most of the adjustment costs will be borne by the Korean and Japanese exporters, rather than the U.S."

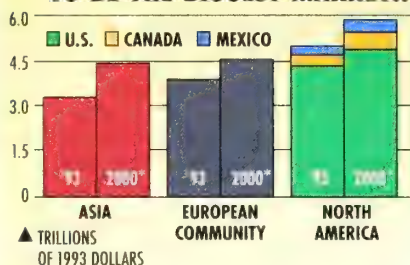
While it's mostly a U.S. show, there will also be investment flowing from south to north, as Mexicans reach into the U.S. market. A year ago, a group of Mexican investors, including major vegetable and fruit growers, paid \$559 million to acquire Del Monte Fresh Produce. Their goal: to add high-value products to Mexico's agricultural export mix. And some of Mexico's best-known industrial giants, such as Vitro and cement-maker Cemex, already have bought U.S. companies over the past five years, hoping to benefit once free trade is in place.

NAFTA is North America's strategic response to the global economy. But so often happens, the medicine has become confused with the malady. And those selling NAFTA's elixir can hardly promise quick relief for globalization anxiety. The truth is that politicians, with their treaties, are no match for the economic forces sweeping the world. Still, they have to try to impose some order on the hot-skelter economic integration that's under way. NAFTA would help make the job ahead that much easier.

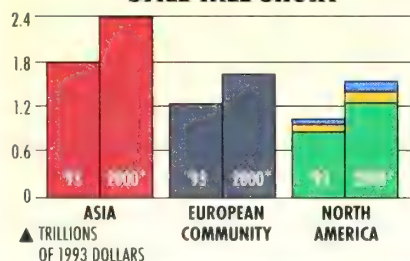
By William C. Symonds in Toronto with Geri Smith in Mexico City, Stephen Baker in Pittsburgh, and bureau repor-

HOW NORTH AMERICA INC. WOULD STACK UP AGAINST ASIA AND EUROPE

THE AMERICAS WILL CONTINUE TO BE THE BIGGEST MARKET...



...BUT INVESTMENT WILL STILL FALL SHORT



*ESTIMATES **JAPAN, CHINA, KOREA, HONG KONG, SINGAPORE, TAIWAN, INDONESIA, PHILIPPINES, THAILAND, MALAYSIA

DATA: DRI/McGRAW-HILL, BUSINESS WEEK



end. Wal-Mart already has 14 stores in Mexico with Mexican partner CIFRA, including discount outlets and wholesale clubs. Similarly, Cinemark USA Inc. of Dallas is building a 10-screen theater in Monterrey and other multiplexes in Chihuahua and Aguascalientes. U.S. fast-food chains, from Arby's Inc. to Domino's Pizza Inc., are adding stores in major cities, and pet-food distributor Best Feed & Farm Supplies Inc. in Oakdale, Pa., is planning three Mexican outlets.

NEW TIER. Until recently, most U.S. companies in Mexico set up assembly plants along the border, with their backs to the Mexican market, and merely cashed in on cheap labor. But now, a new tier of investors is rushing south to make and sell goods in the Mexican market. Morgan Corp., a \$100 million outfit in Morgantown, Pa., is one example. It is inaugurating a factory in Monterrey to meet exploding demand for refrigerated

that would send lower-tech operations to Mexico while keeping higher-end jobs at home. The goal: to reduce costs and gain an edge over foreign rivals. Take televisions. NAFTA would impose a 15% penalty on foreign picture tubes, enough to boost demand for North American tubes by 4 million a year, figures Zenith Electronics Chairman Jerry K. Pearlman. Eventually, Hitachi Ltd., Panasonic Co., and others will have to produce in North America rather than import from Asia.

Some of those jobs will naturally flow to Mexico. Zenith, Thomson, and most other consumer-electronics companies have already moved much of their TV assembly to Mexico to capitalize on low wages. But Thomson Consumer Electronics Inc. makes its larger-screen TVs at its Bloomington (Ind.) plant, still the world's largest, churning out 3 million sets a year. And Sony Corp. has just opened its plant for big-screen rear-pro-

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IT'S GETTING AWFULLY COMPLICATED, BARRY

BellSouth may make his Paramount coalition too unwieldy

Barry Diller is one guy who probably wouldn't object to the label "control freak." He left Fox Broadcasting Co. in 1992 at the apex of his career because he didn't want to answer to owner Rupert Murdoch. And he joined a home-shopping service rather than a more glamorous media company in part because it allowed him to be his own boss. But now, in the crucial waning days of the battle for Paramount Communications Inc., Diller may be jeopardizing the very control he so zealously sought in QVC Network Inc.

Executives close to Diller say he is on the verge of signing BellSouth Corp. as the latest investor in QVC's growing consortium. The deal, which could be announced as early as Nov. 11, calls for the regional Bell operating company to invest \$1.5 billion in QVC. The cash will come in handy: Sources say Diller will use \$1 billion of it to boost his bid for Paramount. On Nov. 6, archrival Viacom Inc. sweetened its offer to \$10.2 billion, roughly \$500 million more than QVC's current bid.

BellSouth's support comes at a price, though. As part of the deal, the Baby Bell will become one of three voting stockholders in QVC, with Diller and Comcast Corp. QVC's other voting shareholder, Liberty Media Corp., would revert to being a passive investor. Indeed, Diller would use the rest of BellSouth's cash to buy out Liberty's \$500 million investment in his takeover bid.

TURNER'S TROUBLE. The trouble is, BellSouth may not be as compliant a partner for Diller as Liberty and its powerful chairman, John C. Malone. For one thing, Malone and Comcast President Brian L. Roberts enticed Diller to join QVC by treating him as an equal partner—even though he bought into the company with less than a 3% equity stake. BellSouth may not countenance

that arrangement for long: Executives close to the deal say BellSouth first approached Diller about buying QVC outright for up to \$5 billion. "Any time you take on new partners, it makes business decisions more difficult," says Lisbeth R. Barron, a media analyst at S. G. Warburg & Co. "That's the problem Ted Turner has."

True, Diller had little choice but to distance himself from Malone. The Fed-



Now, Diller has another problem:
Paramount's purchase of Macmillan,
with \$553 million he may have needed

eral Trade Commission has been scrutinizing QVC's proposed acquisition for antitrust implications. And a senior FTC official says the government is most concerned with Malone's voting control of QVC. By relinquishing his one-third vote, Malone should help Diller clear a thorny regulatory hurdle.

Still, Diller's increasingly unwieldy coalition could pose other problems. In addition to Comcast and Liberty, QVC has lined up \$500 million each from Advance

Publications Inc. and Cox Enterprise Inc. Colleagues say Diller understands the risks of adding hard-charging BellSouth to such a tenuous mix. So he has worked to whittle down BellSouth's investment and role in QVC's future. That may be wise, since he shouldn't count on the phone company to remain a team player: BellSouth won't comment, but investment bankers point out that it held separate talks with Viacom and even explored its own bid for Paramount with bankers at Wasserstein, Perella & Co. **NERVY GUY.** Diller can't take his other partners for granted, either. Cox Enterprises, for one, has always fretted about phone companies encroaching on its cable franchises, according to one former senior Cox executive. Sure enough, say another source familiar with the deal, Cox is now leery of BellSouth.

If that's not enough, Diller has to deal with Paramount's pending acquisition of Macmillan Publishing Co. On Nov. 10, Paramount won the prestigious book publisher in a court-ordered auction of British press lord Robert Maxwell's bankrupt holdings. Rival media executives say Paramount's aggressive bid of \$553 million makes the company more pricey for both Diller and Viacom, since both could have used Paramount's \$1 billion cash hoard as a way to finance their own deals.

Viacom has lost no time capitalizing on Diller's situation. Executives close to Viacom say Chairman Sumner M. Redstone decided to boost his bid to take advantage of QVC's perceived vulnerability. Diller will likely spring his counteroffer before Nov. 10 when the Delaware Chancery Court is set to rule on QVC's request that it throw out Redstone's original merger agreement with Paramount.

In the meantime, say his colleagues, Diller has kept QVC's coalition together with his strong personality and steely nerves. On Nov. 6, in the midst of tense talks with BellSouth, Diller took time off to attend a bar mitzvah for the son of Michael Ovitz. The Hollywood superagent had assembled several carnival rides for the occasion, and observers say Diller headed straight for the most gut-wrenching one. Good practice, perhaps, for the crazy roller-coaster ride that Paramount has become.

By Mark Landler in New York, with Ronald Grover in Los Angeles

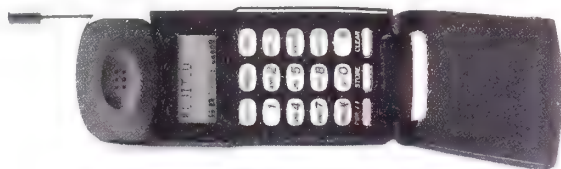
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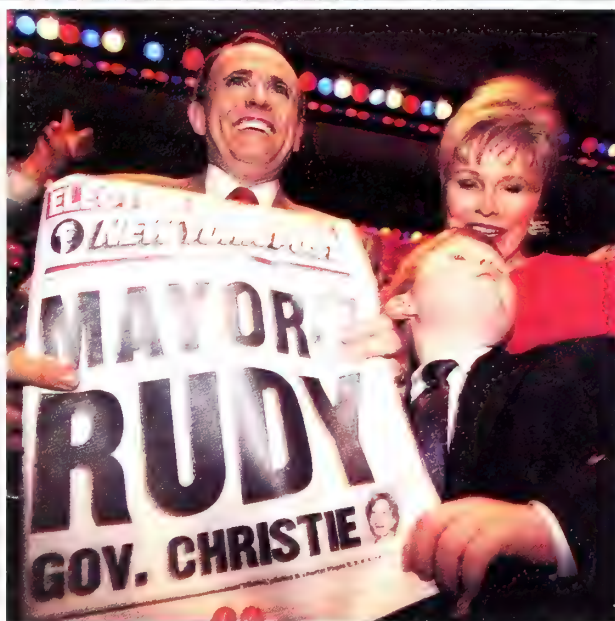
RUDY WON NEW YORK, BUT CAN HE WIN WALL STREET?

The new mayor faces a jittery business community

Rudolph W. Giuliani didn't get much time to bask in victory. Immediately after deposing New York Mayor David N. Dinkins in Nov. 2 voting, the Republican winner launched a non-stop effort to mend the social fabric of a city torn by a bitter, racially divisive campaign. Giuliani got rave reviews for his post-election meetings with former foes. But the success of his administration is likely to depend more on his handling of a less emotional challenge: curing New York's economic woes.

Giuliani will step into a crisis when he takes office in January. The city's revenues for the fiscal year ending next June 30 are projected to run \$500 million below outlays. And powerful unions will resist Giuliani's campaign pledge to slash 35,000 city jobs to close the gap. Meanwhile, the mayor-elect says, New York City's high taxes and suffocating regulations have spurred a business exodus that has contributed to the loss of about 400,000 private-sector jobs in four years. **"NOT ONE OF US."** Where to begin? "The No. 1 job of the next mayor is to create a sense of confidence that he will lead us out of the desert," says former Mayor Edward I. Koch, a Democrat who supported Giuliani. But such a psychological boost can come only if employers see real changes in the city's business climate, not to mention improved crime control, public education, and city services.

The support of New York business will be critical to any reform effort. And here, Giuliani is on rocky ground. The mayor-elect still has enemies from his six-year tenure, through 1989, as U.S. Attorney. Many Wall Streeters saw Giu-



GIULIANI WITH WIFE DONNA HANOVER AND SON ANDREW

liani's crusade against insider trading as the work of an overzealous puritan, an image he's still trying to repair. "He's reaching out to Wall Street," says one Giuliani business adviser. "But there's a lot of long-standing anger to overcome."

Giuliani's 1989 run for City Hall didn't help. Many executives found him ill informed about city finance. That's a mistake he didn't repeat in this campaign. "He's absorbed a great deal of knowledge about dealing with municipal problems," says New York attorney Edward N. Costikyan, another Democrat who backed Giuliani.

Still, as the first Republican mayor elected in 28 years, Giuliani does not have a deep pool of experienced municipal managers. His closest advisers, cam-

paign manager Peter J. Powers and campaign counsel Dennison Young Jr. are attorneys, and the mayor-elect chose a businessman, Dime Savings Bank Chairman Richard D. Parsons, a former aide to Governor Nelson A. Rockefeller to head his transition council.

Giuliani is trying to address such weaknesses by assembling a diversified business brain trust. Among his circle of advisers: J. Tomilson Hill, former co-CEO of Lehman Brothers; venture capitalist Ken Lagone; and leveraged buyout specialist Brian Little. Giuliani is also getting advice from Koch Administration officials Abraham Biderman, a former housing commissioner, and Alair A. Townsend, former deputy mayor for economic development.

UNGOVERNABLE? Giuliani hopes to resuscitate the New York economy through tax cuts, regulatory relief, and spending reductions. On Nov. 5, he announced he'll discipline spending by personally reviewing each agency's outlays every three months. He also plans to ask the state legislature to roll back the city's stiff hotel occupancy tax in an effort to spur tourism and convention business. Giuliani says the tax cut would send a message that there is "a different mentality in City Hall."

Skeptical Democrats dismiss talk of tax and spending cuts as warmed-over Reaganomics. They say that there's no way the new mayor can deliver on his promise to trim 35,000 jobs while emptying some 30,000 public-safety employees. "The numbers simply don't add up," says one Dinkins administration finance official. Stanley W. Hill, executive director of American Federation of State, County, & Municipal Employees District Council 37, says he's willing to talk about efficiencies, but complains that Giuliani's plan "would cause devastation in services." Likewise, Felix Rohatyn, chairman of the city's Municipal Assistance Corp., says Giuliani's employment goal will be "impossible" to meet. "I think he knows that," Rohatyn says.

Giuliani admits his reforms will take four to six years. "It can't all be done at once," he says. But the strong-willed scourge of Wall Street means to change the city's downbeat mindset. "Many people in New York don't believe the city can be governed any more," he says. "We're going to do it. Business says: Good luck. You'll need it."

By Richard S. Dunham in Washington, with Lea Nathans Spiro in New York

BUSINESS TO RUDY: HERE'S WHAT MUST BE DONE

Improve ties to business Giuliani has few businesspeople in his inner circle. Some Wall Streeters resent his crusade as U.S. Attorney against insider-trading.

Live up to campaign promises Giuliani promised to cut business taxes, but the Democratic City Council may not agree to offsetting spending cuts—and New York faces a \$500 million to \$2 billion budget shortfall.

Hold labor in line Business wants Giuliani to take a hard line in labor negotiations with municipal employee unions.

Boost the city's quality of life To keep corporations in New York, Giuliani must reduce crime and improve schools and services.

DATA: BUSINESS WEEK

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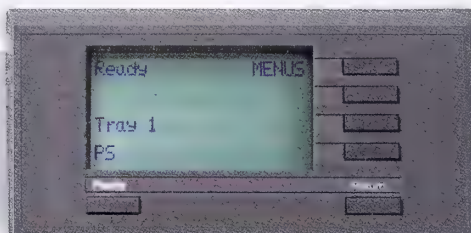
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CRYING OVER UNNATURAL MILK

Dairies brace for a consumer backlash against growth hormones in cows

For nearly a decade, biotechnology companies and consumer activists have waged a pitched battle over the future of the genetically engineered cow-growth hormone, bovine somatotropin (BST). On Nov. 5, the Food & Drug Administration finally approved Monsanto Co.'s controversial drug, clearing it for use once a 90-day congressional moratorium expires. FDA Commissioner David A. Kessler, citing voluminous research and the results of two separate hearings on the drug's safety, said there is no reason to bar widespread use of BST, which boosts milk production in cows. "The public can be confident that milk and meat from BST-treated cows is safe to consume," Kessler declared.

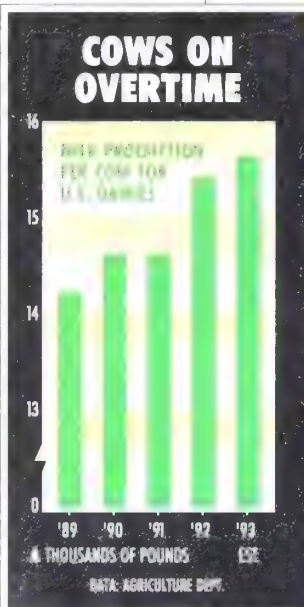
Case closed, right? Hardly. The real battle—the fight for the pocketbooks of American consumers—is just beginning. Farmers, dairy cooperatives, food processors, and supermarkets aren't sure how the marketplace will react to the use of BST. Their fear: a consumer backlash that might torpedo the drug and dampen sales of dairy products. "When BST goes on sale, we will see a decline in [milk] consumption, maybe in the double digits," frets a spokesman for the California Milk Advisory Board. "We think it's a great day for science, but it's lousy for marketing."

ALARMING SURVEY. Many farmers, however, aren't likely to let such concerns deter them from using BST. Field tests have shown that cows treated with the hormone, which is almost identical to the natural hormone that stimulates milk generation, are up to 15% more productive. BST, moreover, is relatively cheap to use. "It's a good management tool," says farmer Ken Nobis, who participated in a BST test program at his 1,000-head dairy operation in central Michigan. "We can use it to make money."

What frightens many farmers and companies, however, is the possibility that large numbers of consumers will reject the drug. In a recent University of California survey of that state's dairy farmers, 56% said they would not use BST, up from just 29% in 1987. Many dairy cooperatives have announced plans to declare themselves "BST free," while others say they may isolate milk from BST-treated cows and use it only for processed products. Some food companies,

treated cows often suffer from an inflammation of the udder called mastitis which is treated with antibiotics. That leads to higher levels of antibiotic residue in their milk, Rifkin says, which is potentially unhealthy.

WAR OF WORDS. Concerns about BST may not fade. Even Monsanto admits that BST-treated cows are prone to mastitis, though it says the condition can be managed with improved milking procedures, as well as antibiotics. Others are worried that beleaguered family farmers could be driven out of business if net production lowers milk prices. U.S. farmers regularly run up a milk surplus now. A big uptick in milk supplies could drive down prices dramatically, straining a federal price-support program that already costs taxpayers about \$300 million a year. "We're worried about the potential effect on small-scale agriculture and



including Gerber Products Co. and ice cream maker Ben & Jerry's Homemade Inc., vow not to buy milk from BST-treated cows.

Anti-BST activists hope to build momentum before the Feb. 3 rollout date for the drug's use in dairy farming. Jeremy Rifkin, the biotech opponent who unsuccessfully campaigned to stop the FDA from approving BST, claims 19,000 volunteers in 900 cities will participate in demonstrations at grocery stores and will boycott products from cows injected with BST. The antis may have some effect, too: The city of Chicago recently passed an ordinance requiring labeling on biotechnology-enhanced food products, and other cities are considering similar rules.

Although the FDA found no evidence of problems with the drug, Rifkin continues to insist it could be dangerous. BST-

on the health of cows," says Alan I. Parker, a Ben & Jerry's Homemade manager.

Monsanto is trying hard to counter arguments against the drug. It is sending informational packets to thousands of dairy farmers, as well as meeting with them. It also has lined up 250 doctors and other health experts nationwide to answer consumer questions about health issues, and it plans to provide educational brochures to retailers. "We want everyone to know that this is the same safe, wholesome milk that they've always gotten," says Walter P. Holgood, vice-president of Monsanto's animal-sciences division. But that may be just what consumers demand: the same old milk, minus the biotech BST.

By David Greising in Chicago, with John Carey in Washington and Larry Armstrong in Los Angeles



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Commentary/by Judith H. Dobrzynski

THE 'GLASS CEILING': A BARRIER TO THE BOARDROOM, TOO

In 1977, a mere 46 women had made it to the boardrooms of America's top companies. Today, 500 women hold 721 board seats at the biggest 500 industrial and 500 service companies. But look beyond the raw numbers, and what sounds impressive isn't. Since 11,715 directors oversee those companies, women account for only 6.2% of the total. That's "insignificant," says Catalyst, the nonprofit women's research group that just released a census of women directors.

Nearly half the top companies have no women directors at all—Walt Disney, Lockheed, Salomon, Safeway, Apple Computer, Black & Decker, Digital Equipment, Federated Department Stores, Hospital Corp. of America, Zenith Electronics... and on and on. Only 166 can boast, if that's the word, of more than one woman director. Thirteen women sit on five or more boards, and 15 others serve on four boards. When it comes to the boardroom—even though 46% of the nation's managers and professionals are female—women are still on the outside looking in.

The gap has several causes. Many boards remain cozy clubs, where chief executives interact collegially with peers. Some CEOs fear that women won't know, or observe, the unspoken rules—such as saving sticky questions for private conversations. Female directors, the Catalyst survey shows, also sense that CEOs worry that women will want to devote more time to women's issues, such as family leave. Possibly as a result, these directors say they don't have a women's agenda.

CATCH-22. Since poor directors—male or female—are hard to shed, CEOs usually want directors with previous board experience—a Catch-22 for most women. And CEOs apparently doubt that a significant number of women make the directorial grade: In a poll of 46 CEOs, Catalyst found that 48% thought the nationwide pool of qualified women was fewer than 250.

Optimists argue that time will soon

cure these problems. Women are only now reaching the upper echelons of Corporate America, and some of them soon could be CEOs. Men are getting used to women having power on the executive floor, and so are some boardrooms. "They don't say: 'Damn, we put that woman on the board, now we can't go fishing,'" quips financial journalist Terry Savage, the first and only woman on the board of McDonald's Corp.

Still, there is a more subtle factor preventing women from entering the

figures for male directors are lower.

It's no surprise that some of these women were found wanting. "The women that got on boards in the past have not added that much, it's true," notes Thomas J. Neff, president of search firm SpencerStuart. "That held the number back." It's a classic case of dropping the wrong women into the slots, then generalizing their failure.

If women are to be adequately represented in the boardroom any time soon, Corporate America will have to modify its selection criteria. Instead of looking only to CEOs, retired CEOs, and chief operating officers—who make up the vast majority of directors—nominating committees should reach deeper into corporations, to women who run divisions and to other top corporate officials. They should tap more professionals—investment bankers, corporate attorneys, and accountants—and entrepreneurs.

This isn't necessarily stooping. "There's a difference between lessening the criteria and broadening them," says Nell Minow, co-author of *Power and Accountability*, a book about boards. By comparison, she points out that fire fighters no longer have to meet height requirements once considered necessary for the job.

Requirements for the post of director may be more nebulous, but they have little to do with title. Professional accomplishment, sound judgment, and expertise in finance are key. All three may be found in many women in Corporate America—if companies look.

True, a few are. Executive recruiter E. Pendleton James says some clients are asking him to find women "who will be CEOs" to be directors. And Neff says that "a name-brand director is not as important with the new generation of CEOs." But this is just a start. Many more companies must follow if businesswomen are to wield the power and influence their numbers suggest they deserve.



boardroom that time alone won't address: Companies have been looking for directors in the wrong places. Because they want "name-brand" women, when highly visible businesswomen have not been available they have approached academics, government officials, community activists, even celebrities. Catalyst's survey shows that 49% of female directors have worked in education and 28% in government. There's no question that comparable

Companies tap "name-brand" businesswomen as directors, overlooking many other qualified female executives

Dobrzynski often writes about boards.

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Michael S. Karsner
Vice President and Treasurer
The Black & Decker Corporation
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Treasurer
Circuit City Stores, Inc.
\$435,000,000
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Gary A. Harmon
Treasurer
Dixie Yarns, Inc.
\$45,000,000
Trade Receivable-Backed Certificates
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Thomas A. Jackson
Chief Financial Officer
Credit Card Division
ADVANTA Corporation
\$250,000,000
Credit Card Receivable-Backed Certificates

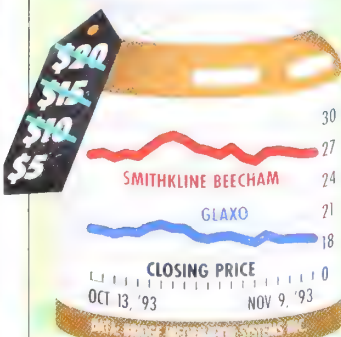
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NationsBank

In Business This Week

EDITED BY KEITH H. HAMMONDS

CLOSING BELL



CAN DRUGS 'R' US BE FAR BEHIND?

Consumer marketing has arrived, finally, in the prescription drug business. In a move that may signal the start of a painful price war, SmithKline Beecham on Nov. 9 announced \$10 cash rebates on its anti-ulcer drug, Tagamet. Analysts say the price cut, which amounts to about 12%, is aimed at building loyalty before Tagamet's patents expire in May. The move will put pressure on Glaxo's Zantac, which controls 38% of the market. Glaxo says it has no plans to cut consumer prices for Zantac.

A THINNING-OUT OF DISCOUNT SMOKES

No surprise: Tobacco companies want to make money again. In April, they slashed prices of premium cigarettes by 40¢ a pack. Now, prices are inching back up. On Nov. 9, in a widely anticipated move, R. J. Reynolds announced it was adding 4¢ to the price of a pack. Liggett followed suit the next day. Philip Morris hasn't weighed in yet, but it is restricting shipments—a sign that prices will go up. Distributors say Reynolds' gambit may reflect its desire to gain back share lost by its Winston and other brands this year. "Reynolds products are not holding up," says Rob Huberman, general

manager at Starkman Distributors in Atlantic City.

CLARIFYING 'SEXUAL HARASSMENT'

The U.S. Supreme Court has clarified the legal ground rules for sexual harassment complaints. In a unanimous decision on Nov. 9, it reversed a lower court ruling in a suit brought by Teresa Harris against Forklift Systems. The earlier decision essentially required Harris to show that she had been psychologically harmed by the offensive actions of her boss. The justices declared this standard too high a hurdle under a landmark 1986 Supreme Court decision. The clarification could make it easier for some employees to bring harassment suits. But sexual harassment remains a murky legal area.

BURKHARDT'S NEW STARTUP FLICKERS

No one disputes Henry Burkhardt III's genius. A mercurial computer designer, he co-founded minimaker Data General and, later, Encore Computer. But his latest startup, Kendall Square Research, has problems. After a financial executive resigned last month, the company disclosed that auditors were reviewing sales for the quarter

HEADLINER

ED ROLLINS' JERSEY JOLTER

Republican political consultant Ed Rollins has never been known for cautious speech. But the manager of Christine Todd Whitman's successful bid to become governor of New Jersey raised eyebrows on Nov. 9 with his admission that Whitman forces had given \$500,000 to black leaders and church officials to refrain from encouraging their Democratic constituents to vote.



Payment of "walking-around money" is a political tradition in many American cities. Normally, however, the money is paid to local leaders to turn out the vote, not to abstain from doing so.

The episode was embarrassing to the GOP, but it's unlikely to hurt Rollins' career. In 1990, while heading the House Republicans' official campaign committee, Rollins enraged the White House by urging GOP congressional candidates to attack George Bush's budget deal. And he caused apoplexy in Republican circles by signing a letter briefly as head of Ross Perot's Presidential campaign. In some cities a man with Rollins' record might never be asked to lunch again. But in Washington says GOP consultant Jay S. Verin III, "he'll dine nice and in good conscience."

By Susan Garland

ended Sept. 25. On Nov. 8, Burkhardt acknowledged that the inquiry had widened to include all of 1993. The news lowered KSR's stock to \$11.75, from \$24.25 on Oct. 28.

UNIONIZATION M&JITTERS

McDonald's is feeling heat—and it's not just from fast-food rivals. The To-

ronto local of the Service Employees International Union has asked the Ontario Labor Relations Board to certify the union for 102 employees of local McDonald's franchises. The franchisee is fighting the bid. If SEIU prevails, the restaurant would become one of the third unionized fast-food outlet north of the border—and the first McDonald's. That wouldn't make a union drive at American restaurants any likelier, though: U.S. labor law makes it considerably more difficult to organize such workers.

PHOTO FINISH



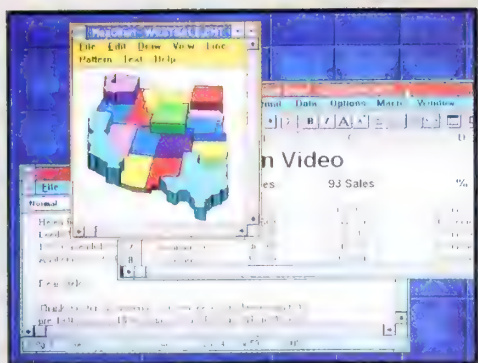
TROUBLE AT EURO DISNEY: THE THEME PARK LOST \$905 MILLION IN ITS SECOND FISCAL YEAR AND SAID IT MUST RESTRUCTURE ITS FINANCES

ETC. . .

- A hot debut for Boston Chicken: Its shares, offered Nov. 9 at \$20, closed at \$48.50.
- Amid employee anger, Weirton Steel delayed a vote to double its shares.
- John Sculley will make \$1 million a year, plus options, his new job at Spectrum.
- Former Phar-Mor CFO Patrick Finn was sentenced to 18 months in prison.

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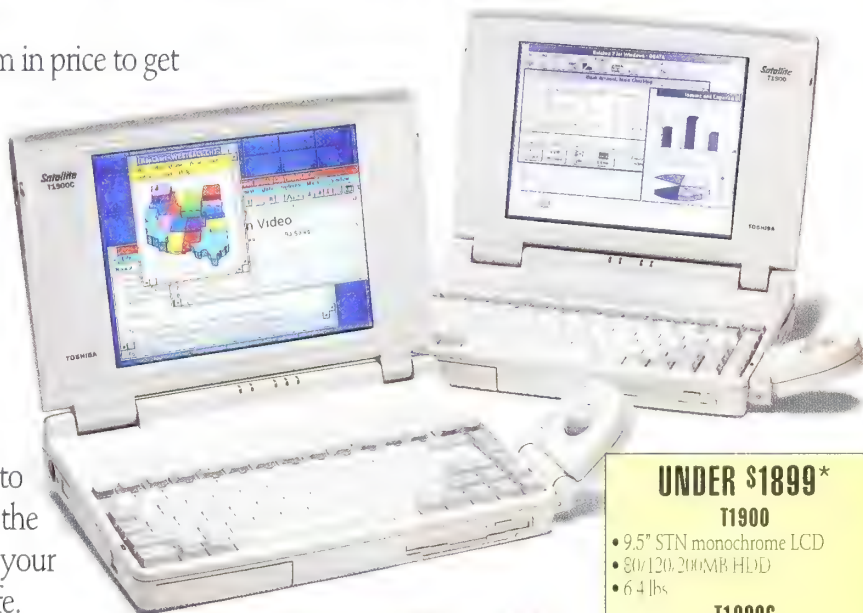
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- 6.4 lbs

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BANK REFORM: BE CAREFUL WHAT YOU WISH FOR...

For decades, bankers have been angling for the right to open branches without regard to state borders. So why are they scared to death of a Senate proposal that would erase most barriers to interstate expansion? Because they fear that the legislation, like the last stab at banking reform two years ago, would actually leave them facing new restrictions on their operations.

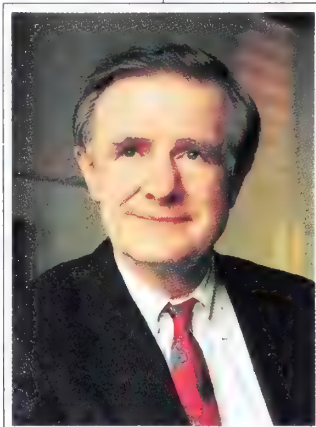
Now, Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.), one of the architects of the 1991 law, is rushing legislation allowing interstate banking. Observers say Riegle, who is retiring next year, has decided to move quickly because he wants to pass the measure as his monument. The banking panel may start work on the bill as early as Nov. 19.

CARY PROSPECTS. What terrifies the banks is an amendment to be offered by Senator Christopher J. Dodd (D-Conn.), a strong backer of his home state's insurance industry, that would keep banks from selling most insurance policies and annuities. Passage in the Banking Committee is all but certain, and the provision has strong support in both the full Senate and the House.

Two years ago, many banks, especially such super-regionals as NationsBank Corp. and Fleet Financial Group Inc., were prepared to give up the chance of getting into the insurance business to get expanded banking powers. But no more. For one thing, many states have since made movement across borders easier. More important, banks are finding their core banking business increasingly unattractive. With low interest rates driving depositors to higher-yielding investments and with many borrowers finding other sources of money, banks now believe that diversification into insurance, securities underwriting, and other new businesses is their most pressing need. In industry circles, "the growing reality is that banking as we know it is about to become an anachronism," says Washington consultant Karen D.

Shaw. "They need the right to offer new fee-based services."

Things had been gradually moving the bankers' way as they won new powers in regulatory rulings and court decisions. Comptroller of the Currency Eugene A. Ludwig has strongly advocated allowing banks to sell insurance, especially from special inner-city subsidiaries. Keeping banks out of the insurance business "is not a good thing for America," says Ludwig. "It should be up to the American people and the markets to decide how to buy insurance."



RIEGLE SURPRISED BANKERS

But the Dodd amendment would be a disaster for banks. It not only would tighten existing loopholes but it also would overturn a ruling by a previous comptroller that annuities are securities products, which banks are allowed to sell, not insurance policies. That would shut off a new and lucrative line of bank business.

Although the Administration is sympathetic to the bankers, it may not be of much help. In an October speech, Treasury Secretary Lloyd M. Bentsen endorsed federal bank reform but added that the Administration plans to "pick our targets carefully." The clear message: The Clintonites prefer to spend their scarce political capital on such high-profile issues as health-care reform and the North American Free Trade Agreement. "You've got an Administration that is distracted," sighs one banking lobbyist. "They're not in a position to mount any opposition."

While bankers and Treasury officials were looking forward to a quiet legislative year, insurance agents were mobilizing. And Riegle's surprise decision to push for legislation gave insurance backers an opening. Now the bankers, late and on the defensive, are facing a very rough time on Capitol Hill. Warns Washington banking consultant Bert Ely: "The insurance locomotive has really picked up steam, and bankers may not be able to stop it."

By Dean Foust

CAPITAL WRAPUP

CIVIL RIGHTS

More than a year after the election, it looks as if the Clinton Administration will finally fill the top civil rights job at the Justice Dept. After extensive lobbying of the Congressional Black Caucus, the White House appears to have won a nod of approval for John Payton, now the top lawyer for the District of Columbia, to become Assistant Attorney General for civil rights. Caucus members, still angry at Clinton for withdrawing the nomination of Lani Guinier to the post early this year, were unhappy after an early November meeting with Payton. At the session, Payton failed to of-

fer strong views on a 1992 Supreme Court decision that made it easier to challenge the creation of majority black districts under the Voting Rights Act. Since many caucus members owe their jobs to the existence of such districts, they are counting on a strong legal defense from the Administration. The White House may assuage their fears by naming an experienced civil rights litigator as Payton's deputy. Meanwhile, Clinton's choice for the top job at the Equal Employment Opportunity Commission is also running into resistance. Civil rights groups feel that New York labor lawyer Ida Castro lacks experience in handling job-discrimination cases.

JOBS

Remember Bill Clinton's pledge to host a "jobs summit" aimed at finding ways to spur Western job growth? The cool reaction of other Group of Seven leaders has kept the parley off the international meeting schedule. Treasury Secretary Lloyd M. Bentsen now says it's back on, although no date has been set. But Bentsen has added one important condition: Robert B. Reich and his fellow labor ministers won't be alone at the confab. Bentsen and G-7 finance chiefs want in to make sure that the laborites don't commit governments to new job programs they can't afford.

AFTER THE SCANDALS, A VAST SELL-OFF

A sweeping privatization could change the face of Italian business

Over the past few months, Italy has boiled over with endless scandals, suicides, and arrests as part of its sweeping crackdown on corruption. Yet through all the turmoil, a small group of technocrats kept toiling away within the cavernous offices of the 19th-century Treasury Ministry building in central Rome. Even over sweltering August weekends, the team, led by Mario Draghi, a 46-year-old economist and top Treasury official, kept working on its plan to privatize large chunks of Europe's most state-dominated economy.

Now, the payoff could be at hand. On Nov. 19, a campaign begins for the sell-off in early December of some \$1.5 billion in shares of Credito Italiano, a leading state-controlled bank. With the sale, Italy is finally jumping on the privatization bandwagon that has transformed so much of the rest of Europe. Under Draghi's plan, banks and companies worth some \$60 billion would be sold off, including some of Italy's biggest (table). "Ten, twenty years from now, this will be remembered as the real turning point of the Italian economy," says Romano Prodi, CEO of the huge state holding company IRI.

UNEASY BALANCE. That's what Prodi, Draghi, and a handful of others in the Italian Establishment—including embattled Prime Minister Carlo Azeglio Ciampi—are betting on, anyway. Thanks to the almost total disarray in the political world, they now have a good chance of remaking the very structure of Italian business. "The corruption scandals have killed off the lobby that could have stopped privatization," says Francesco Giavazzi, a key aide to Draghi.

Stretching over 2½ years, it's a sweep-

ing program, designed in part by such financial powerhouses as J. P. Morgan & Co. and Goldman, Sachs & Co. After Credito Italiano, shares in Istituto Mobiliare Italiana, a financial-services group with \$41 billion in assets, will be floated in February in Milan and New York. Next April will see the sell-off of the prestigious state-owned bank, Milan's Banca Commerciale Italiana (COMIT).

It's not only banks. Italy is now restructuring its \$17.5 billion state-owned telecommunications businesses for a flotation next year. Even ENI, the huge government-owned energy and chemicals empire, will be broken up. Managers are preparing to spin off the group's \$30 billion-in-sales oil-and-gas operations, including AGIP. The new company, which is worth \$19 billion, will be one of the world's largest single privatizations.

If Italy sticks with the program, it will sweep out the country's old ways of doing business. For decades, the Italian economic scene has been dominated by two big forces coexisting in an uneasy balance. In the private sector, a handful of powerful, family-dominated northern Italian industrial groups such as auto giant Fiat and tire-maker Pirelli called the shots and controlled the Milan bourse. Next to them, a vast government sector managed 9 of the 10 largest Italian banks and huge swaths of industry. Two government-owned groups alone—IRI and ENI—generated sales last year of \$78 billion, about 8% of Italy's gross domestic product.

Even before Draghi and his team got to work, that system was coming to an end. Faced with brutal competition, Fiat and the other big family groups are being forced to adopt modern European business prac-



WHAT'S ON THE BLOCK

ANNUAL SALES (1992)

PRIVATIZATION DATE

MARKET VALUE (EST.)

**INTERNATIONAL
ADVISER/UNDERWRITER**

CREDITO ITALIANO

Bank

\$66 BILLION*

Dec. 1993

\$2 BILLION

J.P. MORGAN,
GOLDMAN SACHS

IMI

Financial services

\$41 BILLION*

Feb. 1994

\$4 BILLION

CREDIT SUISSE
FIRST BOSTON

COMIT

Bank

\$81 BILLION*

Apr. 1994

\$2.1 BILLION

J.P. MORGAN,
LEHMAN BROTHERS



CREDITO ITALIANO'S \$1.5 BILLION IN SHARES WILL BE SOLD IN DECEMBER—AND THAT'S JUST THE BEGINNING

tices—and that has meant a decline in family influence. To raise \$3.2 billion in cash last September, for example, the Agnelli family gave such non-Italian shareholders as Germany's Deutsche Bank and France's Alcatel Alsthom virtual veto power over strategy at troubled Fiat. The situation at Italy's state-owned companies has been even worse. Last year, the third-largest state holding company, EFIM, went bankrupt under the weight of \$17 billion in debt. IRI has total debts of \$45 billion, a European, if not a world, record.

The end of Italy's traditional balance of economic power is not coming without a fight. In the past two months, northern Italy's big private players have mounted a bitter attack against government plans to ensure a wide distribution of shares. Instead, they want to see prearranged French-style core shareholdings that would still control management. "If I had a daughter," reflects Fiat Managing Director Cesare Romiti, "I would want to have a chance to influence who her future husband is rather than let her take her chances on the sidewalk."

So far, Draghi and Prodi are holding their own. In late October, the powerful Milan merchant bank Mediobanca led an effort to form a new shareholder group to take control of COMIT, the IRI-affiliated bank slated for privatization next year. With backing from the Prime Minister, however, Prodi blocked the proposal, which would have placed the bank in Mediobanca's orbit.

Despite this opposition and despite Italy's seeming chaos, Draghi's group hopes that its careful planning of the share sales will ensure success. In a total break with past financial practices, Draghi went outside Italy to choose advisers. By hiring such blue-chip firms as N. M. Rothschild & Sons and J. P. Morgan—and keeping Italian firms such as Mediobanca in relatively minor roles—Italy is showing that it is deadly serious about privatization, say Treasury officials.

Winning over small Italian investors also

will be crucial to the success of Italy's privatization experiment. Italy's 18-million households are, after all, among the thriftiest savers in the world. Until now, almost all that cash has been plowed into government paper, mostly in high-yielding Treasury notes called BOTs. The Treasury is trying to create a scarcity of those public offerings to encourage investors to look elsewhere. If Italians shift just a small portion of their savings into buying equities, the privatizations could be absorbed, says a Draghi aide.

BRIGHTER FUTURE? Some Italians will be reluctant. Luigi Caruso, a 64-year-old retired bank manager who has his life savings in government bonds, says he won't touch shares in privatized companies. "I wouldn't dream of it," he says. But his daughter Alessandra, 31, is tempted. If the Credito Italiano offer looks interesting, she

says, "I'll buy shares." Government officials admit that the first few issues will have to be attractively priced to succeed. "The French had to discount BNP very heavily when they sold it," comments Prodi, referring to the \$5.5 billion privatization of France's No. 2 bank.

Supporters of this major effort to restructure Italy's economy argue that the privatizations will ultimately lead Italy to a brighter

future. "Italy will wind up with institutions that are closer to a free market than anything else in Continental Europe," says Franco Bernabè, a 45-year-old economist who took over the reins of power at the ENI energy group in August, 1992. Markets in Germany and France, he notes, tend to be tightly regimented and tightly controlled. "At the end of the day, we will have a U.S.- and British-style system," says Bernabè.

That's an ambitious prediction. But if December's sell-off of Credito Italiano shows that Italians have a taste for shares in privatized companies, Italy will have taken an important, even historic step in that direction.

By John Rossant in Rome



INA	ENEL	AGIP	STET
Insurance	Electric utility	Oil & gas	Telecommunications
N/A	\$17.9 BILLION	\$30 BILLION	\$16 BILLION
June 1994	1994	1995	1994-95
\$6.5 BILLION	N/A	\$19 BILLION	\$10.6 BILLION
SCHROEDERS,	KLEINWORT	N.M. ROTHSCHILD	TO BE NAMED
OLDMAN SACHS	BENSON		

*Assets N/A=not available DATA BUSINESS WEEK

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A WARNING SHOT TO SCARE POLLUTERS STRAIGHT

A clear message emerges from proposed government guidelines: Start cleaning up or else

For years, prosecutors and judges have been struggling with how to dole out punishments to businesses caught polluting. Now, a two-year-old group advising the U.S. Sentencing Commission has an answer: Make companies pay dearly for their dirty deeds.

That's the recommendation the 16-member panel of industry representatives, environmentalists, and prosecutors will be presenting to the commission later this month. If the controversial sentencing plan is adopted, companies prosecuted for everything from mishandling hazardous substances to tampering with public waterways to endangering wildlife will be subject to monetary penalties stiffer than ever before.

Under the draft guidelines, which were obtained by *BUSINESS WEEK*, judges sentencing future corporate polluters will rely on a comprehensive formula that puts as much emphasis on a company's environmental track record and its intent to breach environmental laws as it does on the actual crimes committed. That means companies will genuinely have some control over how harshly they will be punished.

VOODOO JUSTICE. Currently, judges have no guidance on how to assess fines. But under the advisory group's design, a company's demonstrated commitment to the environment—or lack of it—will be the driving force behind how deeply corporate defendants will have to dig into their pockets. "This is very much an incentive system," says Ilene H. Nagel, a member of the sentencing commission. "Corporate America should pay serious attention to these guidelines and take preventative measures. Those who don't will think these guidelines are very harsh."

Companies will have the book thrown at them if their conduct suggests little regard for the environment. For example, judges will punish companies more severely if it is determined that managers have condoned or concealed crimes. Companies with a history of environ-

mental blunders or those that have not succeeded in correcting past mistakes will also face tough penalties. And courts will look most unfavorably at companies that fail to implement a rigorous compliance program.

Conversely, judges can reward businesses with lighter sentences when they maintain an effective internal compliance program. To earn such credit, management must be involved in ensuring that environmental policies and procedures are integrated into a company's overall operations. Judges may also con-

object to using the threat of hefty fines as a means of controlling companies' behavior. "They're trying to micromanage a lot with respect to business," says Paul D. Kamenar, executive legal director of the Washington Legal Foundation, which has actively opposed the efforts of the advisory panel.

MASTER CHART. Other critics object to punishing companies for not having a compliance program. "There's no legal requirement that companies have to have one," says Roger J. Marzulla, an environmental-law expert. "To sentence

companies for something that they are not required to do by law seems a troubling issue."

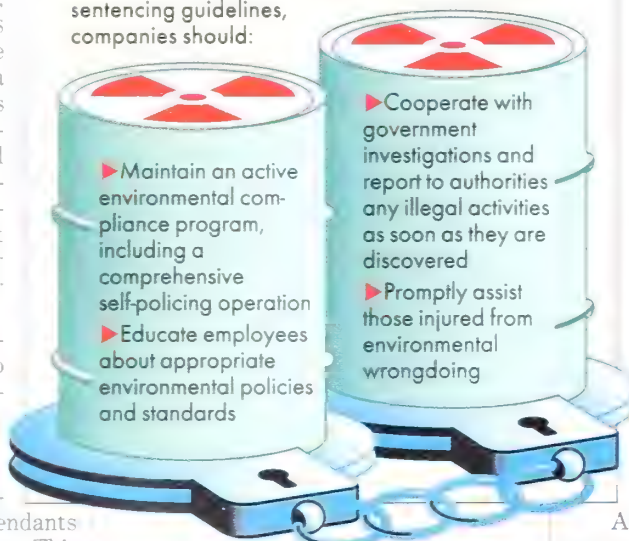
Of course, it will be up to judges to decide how much to reward or dock companies for their conduct. The proposed plan includes a table that assigns every crime an "offense level," which is modified according to each defendant's environmental record. These levels are used to come up with the amount of money companies will pay for their crimes. For example, if a company can prove that its policies are environmentally friendly, a judge may reduce the severity of the fine by three to eight levels. The problem, say several lawyers familiar with the plan, is that the guidelines are so tough that companies will be hard pressed to turn their good deeds into significantly lower fines.

Adoption of the guidelines is still a ways off. They first must be approved by the seven-member commission, which is currently without a chairman, and then withstand congressional scrutiny. But given the mix of business and environmental interests on the advisory panel and the Clinton Administration's stated goal of being tougher on corporate polluters, the guidelines have a good chance of emerging from the legislative process more or less intact. And that prospect is all but certain to make many companies start seeing green.

By Linda Himmelstein in New York with Catherine Yang in Washington

WHAT IT TAKES TO PLEASE THE COURTS

Under the proposed sentencing guidelines, companies should:



sider such mitigating factors as how well a company cooperates with regulators and investigators and whether it does a good job policing itself. Fines may be lowered if a business promptly assists victims of its wrongdoing.

The carrot-and-stick approach is already igniting protests from critics who charge that the fines are too steep and too difficult to calculate. They also argue that the guidelines unfairly pick on small businesses that may not be able to afford the costs of internal audits or compliance programs. Moreover, these foes

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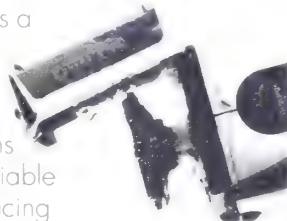
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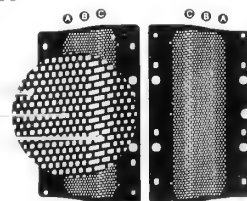
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CLASH OF THE FLYING TITANS

GE, Pratt, and Rolls are scrambling to sell supersized jet engines

How competitive is the global aviation business? Get a load of this: A few months ago, China Southern Airlines in Guangzhou was trying to decide which engines to buy for six new Boeing 777 aircraft it had just ordered. Rolls-Royce had already dropped out of the bidding, leaving General Electric and Pratt & Whitney to fight it out. Pratt made its best offer—a discount of 96% on its \$120 million asking price. “We were giving the engines away,” says Pratt President Karl J. Krapek, who hoped to lock in 20 years of spare-parts and service business that might double the contract’s value. Then, archrival GE did the unthinkable: Although it won’t reveal its winning bid, industry sources say it bettered Pratt’s offer with concessions worth an extra \$30 million.

Such bare-knuckles deal-making has become the hallmark of the fiercest financial and technological battle in years in the commercial jet-engine business. Boeing Co.’s widebody 777 will fly on just two engines, so they will be huge—powerful enough, in theory, that a single one could lift two Boeing 737s off the ground. To come up with this monster, General Electric Co. is gambling \$1.5 billion on an all-new design, while Rolls-Royce PLC and United Technologies Corp.’s Pratt & Whitney are spending some \$750 million each to push their existing designs to the limit. Flight tests are about to start, and if they go well, commercial service will begin in mid-1995.

Problem is, this is happening at the worst of times for makers of engines and planes. For one thing, the commercial-airline business is in a prolonged cyc-



PRATT'S ENTRY: OPTING FOR AN UPGRADE VS. GE'S ALL-NEW DESIGN

lical dive. Collectively, U.S. carriers lost \$10 billion over the past three years. And orders for new aircraft have dropped from a record 1,800 in 1989 to 350 this year. “Our history has been that we typically launch a new airplane, and then a recession starts,” laments Boeing President Philip M. Condit.

For engine makers, the effect is magnified by a wrenching, post-cold war tailspin in the defense business. Where once

Pratt and GE delivered more than 1,500 military engines a year, they will be lucky to ship 500 in 1993. As Pentagon orders have evaporated, employment at GE’s \$7 billion engine unit has plunged from the 1987 peak of 44,000 to just over 20,000. Pratt, which accounts for \$1 billion of UTC’s \$22 billion in revenues, has shuttered 5 million square feet of factory, office, and warehouse space. Krapek, brought in from UTC’s Carrier division to cut costs, says employment will soon fall below 30,000, from 50,000 a few years ago.

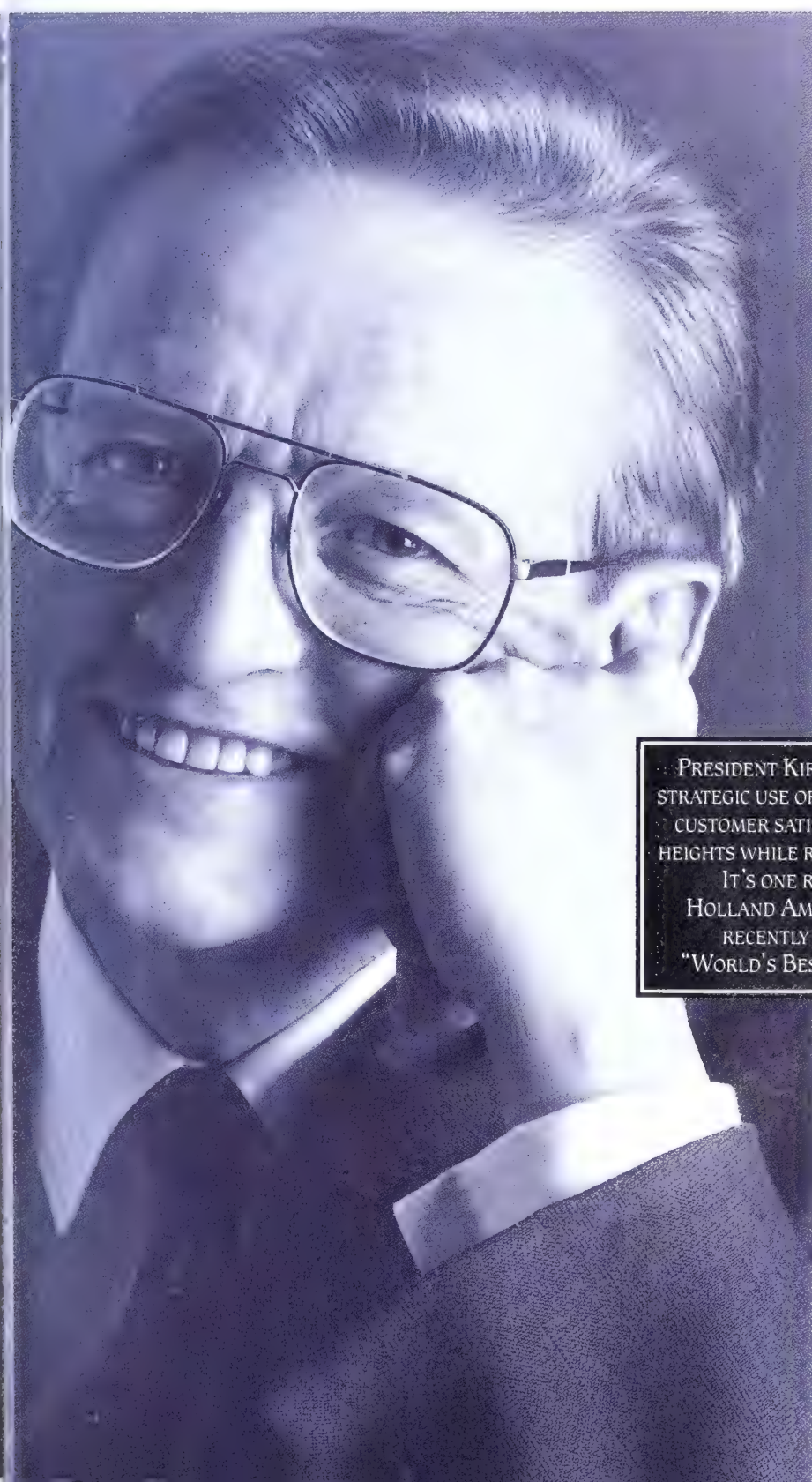
In this climate, a big new aircraft program such as the 777 is a life-or-death proposition—especially since engine makers view the momentum they build now as the key to success well into the 21st century. Assuming that generations of planes beyond the 777 use their GE90, GE expects to reap \$50 billion over the next quarter-century from sales of the engine, replacement parts, and service. “It’s a 30-year business,” says R. L. Conboy, general manager for commercial marketing at GE Aircraft Engines. “We hope to break even in 5 to 10 [years].”

BIG SAVINGS. Boeing triggered the race to build the world’s most powerful jet engine in the late 1980s when it began developing the \$11 million-plus 777, which will carry 300 to 400 passengers on hauls of up to 7,500 miles. The combination of such a big plane and just two engines means operating savings of up to 40% for cash-strapped airlines over comparable four-engine models. But the latest versions of the 777 will need engines that can achieve nearly 100,000 pounds of thrust—40% more than today’s biggest engines.

Each manufacturer reacted differently to the challenge. Pratt and Rolls took the less costly and technologically more conservative route of upgrading current engines. To boost thrust, they added larger fan and strengthened engine components. GE had an older engine with limited upgrade potential. And it wanted a new engine family for future, even larger planes that might need more power. Pratt and Rolls would probably need entirely new engines for them.

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Industries

plant. Based on technology developed for a NASA research project in the 1980s, GE's engine has a higher compression ratio than its rivals' and uses an innovative combustion system that the company claims is more fuel-efficient and less polluting. To reduce the weight of the engine's huge 123-inch fan, GE is substituting lightweight blades made of graphite epoxy composites for the hollow titanium blades used by Pratt and Rolls. Composites have been used before in

lower-speed parts, but GE is the first to try them for high-speed fan blades.

Designing an all-new engine for a brand-new plane is a risk. "The classic thing you try to avoid is the combination of a new engine and a new airframe," says Ed Greenslet, president of ESG Aviation Services, a consultant in Ponte Vedra, Fla. GE's rivals raise doubts about its strategy. "If you start out with a new engine, it'll often have more than its share of mechanical problems

in the early service years," says Stanley Todd, project head for Rolls's Trent 800 engine. When Boeing's 757 began service in the 1980s, for example, it had some in-flight engine shutdowns. While rarely a threat to passengers—planes are designed to fly with half their engines—such problems raise airline operating costs. "What I am selling is certainty," avers Pratt's Krapek. That argument won over United Airlines, which ordered 68 Boeing 777s with Pratt engines.

The goal now is to get the bugs out early. The sheer size of the new en-

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ON THE STREET

nes—the GE90 is as wide as the fuselage of a Boeing 727—has required special test equipment. And engineers had trouble fitting Pratt's engine under the wing of a test 747 so that it doesn't scrape the ground. The early trials—both engines mounted on test stands—have turned up a few problems. Because the engine ran too hot at maximum thrust, Pratt is strengthening the low-pressure turbine that helps drive the engine's fan. A GE engine suffered what the company says was "significant" damage in July to its high-pressure turbine, says the problem, which has delayed the first flight test, wasn't a design flaw but was caused after workers left too little clearance when setting the fan inside the engine casing. All in all, Boeing's Condit says he is "comfortable" with the current pace of engine development.

CONTROVERSY. Getting certification from the Federal Aviation Administration may be a little trickier. Boeing will fly five 737s with Pratt engines on thousands of test flights beginning next year. Then, 10 or more 777s will be used to certify the GE and Rolls engines. Boeing added an extra plane and 1,000 test flights in hopes of getting an unusual O.K. from the FAA. Traditionally, for its first year, a new twin-engine plane flies only routes that never stray more than one hour

Boeing wants over-water flights to start sooner than usual. Pilots don't

from an airport to allow for emergency landings. Boeing wants the FAA to let the 777 begin flying up to three hours from the nearest airport right away—key for lucrative long flights over water, such as from the U.S. mainland to Hawaii and from Japan to Singapore.

Not surprisingly, Boeing's request has sparked controversy. The Air Line Pilots Assn. is against immediate approval for so-called extended operations. Instead, it wants six months of proven commercial flights first. Competitors such as Airbus Industrie, in trying to woo customers, contend that their four-engine planes are preferable for long routes over water.

While tests continue, engine makers are going all-out on the sales front. "It's a real horse race," says Boeing Executive Vice-President Ronald B. Woodard. Thanks to United's big order, Pratt leads with 48% of the 226 engines bought to date vs. GE's 28% and Rolls's 24%. GE scored a coup in 1991 when it won a

\$600 million order for 60 engines from British Airways PLC, a traditional Rolls customer. The deal raised eyebrows because GE also bought the carrier's engine-overhaul facility in Wales for \$446 million, "an extremely high price," says analyst David Franus of Forecast International in Newtown, Conn.

For now, the focus of competition has switched to Asia, a vital market that accounts for nearly half of all 777 orders so far. The manufacturers are battling over Japan Air Lines Co. (JAL), which has been a big Pratt customer and has ordered 20 777s. All three are pulling out the stops for JAL: In October, British Prime Minister John Major opened a technology trade show in Tokyo on Rolls's behalf.

Widebody aircraft are expected to account for 50% of the 11,000 or more planes the worldwide airline industry will order in the next 25 years, as carriers replace aging DC-10s and L-1011s and as traffic surges in Asia. Eventually, that will mean tens of billions of dollars in engine and spare-parts revenue. With the stakes so high, engine makers may have little choice but to ante up now if they want to stay in the game.

By Tim Smart in Hartford, with Julia Flynn in London, Dori Jones Yang in Seattle, and bureau reports



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CAPITOL HILL

NOW, CONGRESS' WATCHDOG IS NIPPING AT CLINTON

The CBO's analysis of the numbers could sink his health plan

Referees are seldom loved, but professionals would never consider playing a game without one. So it is with Washington's never-ending budget fights. Ask any of the 200 number-crunchers who work for the Congressional Budget Office. The nonpartisan agency, created by the 1974 budget reforms, is supposed to keep Congress and the White House honest while ensuring that the budget deficit stays in check. That job has won the CBO few friends and truckloads of enemies.

Robert D. Reischauer, the Democratic economist who heads the CBO, may be about to gain two more very important detractors: Bill and Hillary Rodham Clinton. Budget rules hand the CBO the task of analyzing the Clintons' massive health-care reform plan. The findings will determine whether the proposal is a budget-buster. If so, Congress' "pay-as-you-go" rules—adopted this year—would force a tax hike or benefit cut. And that, warns Rudolph G. Penner, a Republican who ran the CBO during President Reagan's first term, would "make the President's plan a nonstarter."

TWO JOBS. If the First Couple and their fellow Democrats are surprised by the independence of the Capitol Hill budget-watchers, so are Republicans. For the past decade or so, Republicans saw the CBO as the Democratic leadership's tool for harassing GOP Presidents by belittling their low deficit projections. They still question its motives. "Reischauer is working

for the people who pay him, and I don't think the CBO can be seen as politically neutral," says Representative Richard K. Armey (R-Tex.). The CBO has survived such slings and arrows because it can point to the credibility of its budget forecasts, which have been more accurate than those issued by the partisan Office of Management & Budget (chart).

Now the tables, if not turned, are at least rearranged. This summer, Reischauer displayed his independence when

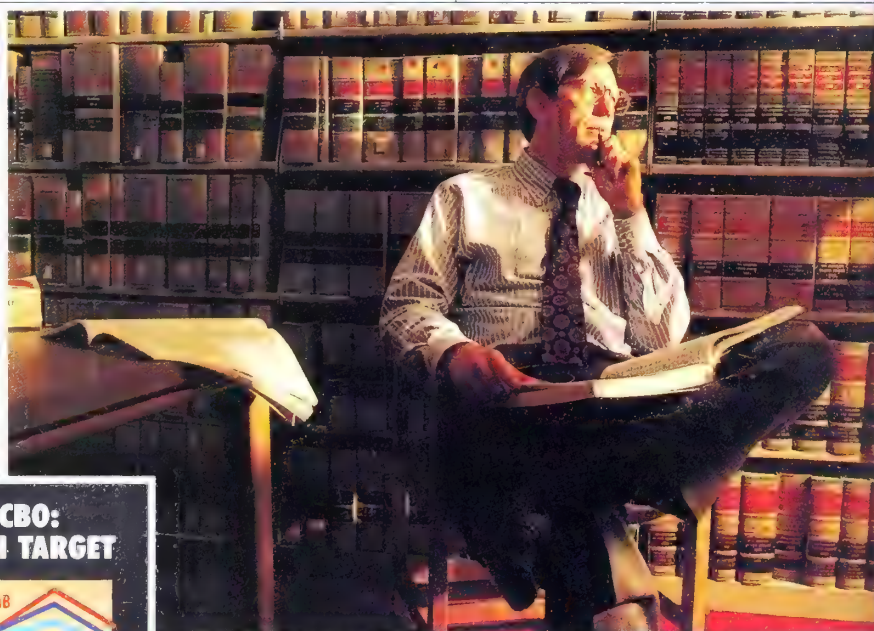
he announced that the Administration's \$496 billion deficit-reduction plan would actually save only \$433 billion. Another dispute stems from the White House's claim that its health plan will trim the deficit by \$58 billion over six years. Republicans counter that it will cost hundreds of billions and cause massive job losses. Reischauer, a jocular man, turns grim at the prospect of deciding who's

Act's requirement that employers pay 80% of the health-care costs of workers should be considered a tax.

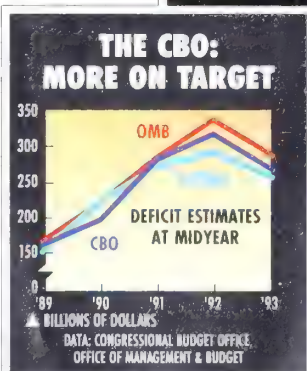
In economic terms, it makes no difference what it's called. But the last thing the White House wants to do is to explain a tax hike of hundreds of billions of dollars on top of the \$241 billion included in the budget package passed last summer. The CBO is unlikely to see the question Clinton's way. Most economists believe that a government action that forces companies to pony up cash is equivalent to a tax.

"SHOOT STRAIGHT." Liberal Democrats will happily accept that. They favor an alternative payroll tax to pay for more health care. If the CBO says Clinton's mandate is a tax, the political gulf between the two approaches will narrow.

The CBO's would-be Solomon is a soft-spoken 52-year-old government veter-



DEMOCRAT REISCHAUER OF THE CONGRESSIONAL BUDGET OFFICE



closer to the truth. Health reform "is the largest social-policy change that our government has contemplated at least since the Great Depression," he says.

"We'll be making no better than an educated guess about a systemic change the effects of which won't be known for a decade."

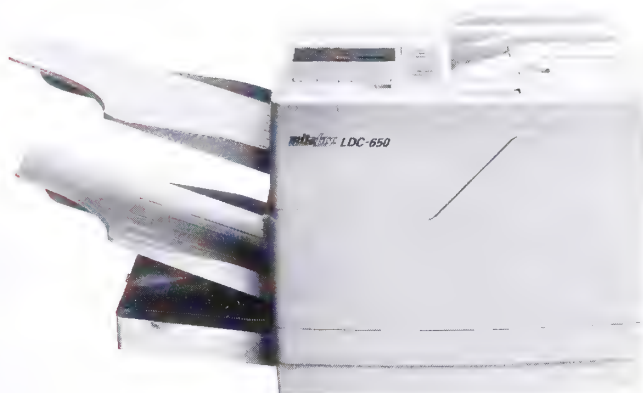
Reischauer has two big jobs immediately ahead—one philosophical, the other a question of accounting. The bean-counting chore, though it gives the CBO just a month to analyze an overhaul of one-seventh of the U.S. economy, may prove the easier. The more explosive question is whether the Health Security

who calls himself an "eclectic, mainstream, market-oriented economist." The Harvard graduate and Columbia Ph.D. has spent most of his professional life working for the budget office, which helped found. And he accepts that controversy comes with the job. "I was hired to shoot straight and be as objective as possible, and I don't think anyone can accuse us of toeing the Administration's line," he declares.

But the decisions Reischauer makes on the health plan—due within a month—are likely to create animosity at both ends of Pennsylvania Avenue. For a man whose stock in trade is his reputation as an honest referee, that may be a measure of success.

By Paul Magnusson in Washington

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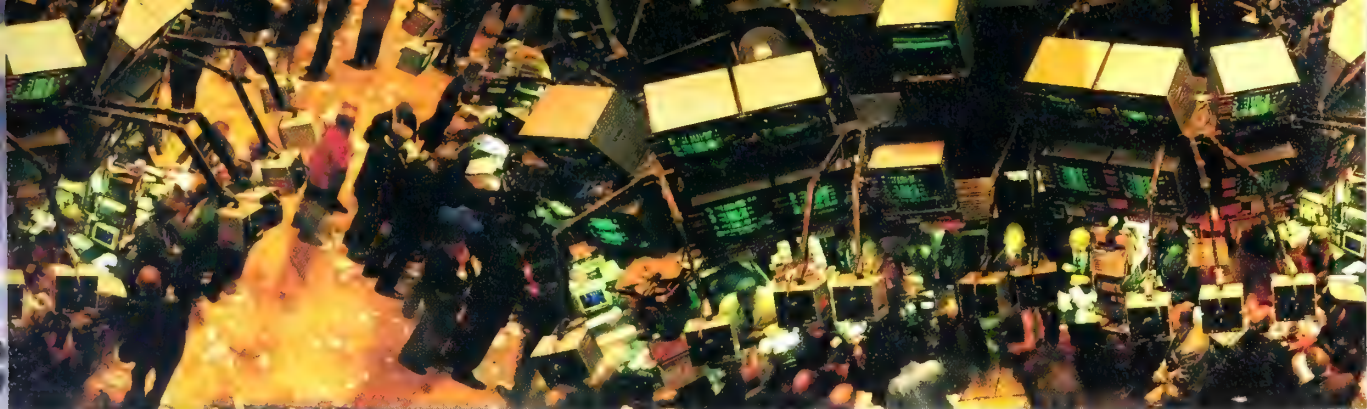


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FIDELITY KNOWS WHAT IT LIKES: LOWBROW ART

It's expanding a chain of shopping-mall galleries in a weak market

Michael O'Mahony is used to having people sneer at his business. The former jewelry designer is president of Wentworth Gallery, the fastest-growing chain of art galleries in the U.S. But the galleries aren't in SoHo, Santa Monica, Santa Fe, or any other major art center. They're in shopping malls. And O'Mahony claims he couldn't care less about critics who

They sold everything from Salvador Dali prints and Alfred Eisenstaedt photographs to kitschy acrylic sculptures and paintings, at prices ranging from \$500 to \$50,000. In those days, observes Martin S. Blinder, chairman of Martin Lawrence Limited Editions, a struggling Van Nuys (Calif.) chain, "the public had a voracious appetite for art." When the recession hit, though, the entire art



"WE SAW A NICHE": OPENING A TONY BENNETT EXHIBIT

say he peddles junk. "For every person offended by art in malls," he says, "another 100 or 200 say it's terrific."

Judging by the pace of Wentworth's expansion, O'Mahony may be right. The Miami-based chain has grown from 6 outlets in 1989 to 37, with 6 added this year. More are on the way, thanks to the deep pockets of Wentworth's owner, Fidelity Capital, a division of Boston's Fidelity Investments. Fidelity, whose \$247 billion in assets make it the No. 1 U.S. mutual-fund manager, isn't known for placing bad bets. Although some dismiss the venture as a whim of Fidelity Chief Executive Edward C. "Ned" Johnson, company officials claim Wentworth can buck the downward spiral of other mass-market galleries by positioning its offerings as home furnishings.

During the art-market boom in the 1980s, gallery chains opened in malls and tourist spots across the country.

FIDELITY'S ARTS VENTURE

ENTRY Bought Wentworth Gallery in 1989

EXPANSION Six stores then, 37 now

STRATEGY Decorative art sold in shopping malls

MARKETING Gala openings, discount coupons, matches rivals' price

DATA: FIDELITY CAPITAL

world went south. Most mass-market galleries have shuttered stores, restructured debt, or gone bankrupt. Those still alive have slashed prices by as much as 70% and even resorted to auctions to move inventory. "Our industry has been decimated," says Jack Solomon, chairman and chief executive of Circle Fine Art Corp. Circle's stock, worth \$10 in 1989, now sells for 25¢.

Even so, Fidelity Capital Managing Director John Rehm says the art business provides a "real opportunity" for the mutual-fund giant. It bought Wentworth in 1989 because "we saw a niche in specialty retailing for good, solid home decor," he says. Unlike mass-market galleries that have pretensions of offering highbrow art, Wentworth markets its works as household items meant to complement furniture and wallpaper. To draw crowds, it features works by celebrities: It has carried paintings by actress Elke Sommer and crooner Tony Bennett. Bennett often makes appearances at galleries before his concerts.

"BOGART" BUST. So far, the investment—although small in the context of Fidelity's \$1.8 billion revenues in 1992—hasn't paid off. Officials say Wentworth is making money, but they won't release figures on profits or losses. While Fidelity says total sales will reach \$20 million this year, revenue per store has fallen from about \$666,000 in 1990 to about \$540,000 this year. O'Mahony, who blames the decline on the company's rapid expansion, says he isn't concerned. "It takes about two years for an art gallery to mature," he says. Wentworth has not had cut-rate sales, but it has introduced \$100 coupons customers can use to get discounts.

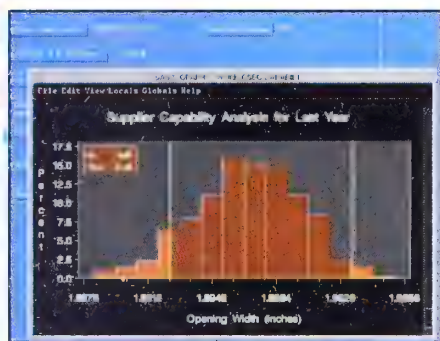
The recession hasn't been the only problem for mass-market galleries. Both the Federal Trade Commission and the Justice Dept. have been investigating dealers for allegedly selling counterfeit artwork. On Oct. 26, Donald S. Austin, president of the Chicago-based Austin Galleries chain, was found guilty of selling fake Chagalls, Miro, and Picassos. His indictment was 1 of 10 to be served in the Justice Dept.'s Operation Bogart—for "Bogus Art." Wentworth hasn't been implicated.

Such scandals aside, some people believe the worst may be over for mass-market galleries. Some, such as Martin Lawrence and Circle, are still cutting prices and holding auctions. But the market for prints, posters, and paintings is "on a modest upswing," says John Haffey, publisher of *Art Business News*. And Fidelity's optimism was recently matched by Detroit-based Venture Funding Ltd., which bought mass-market gallery Dyansen Corp. last June after a \$1 million foreclosure by creditor Chrysler Capital Corp. Dyansen will soon move into an "expansion mode," says Michael Miller, national sales director. Meanwhile, Wentworth plans to open up to nine galleries in 1994, mostly in the Midwest and the South. Tony Bennett may have a busy year.

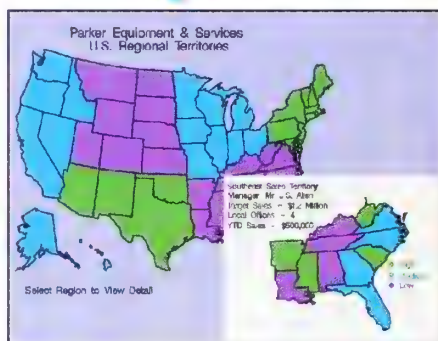
By Bruce Einhorn in New York

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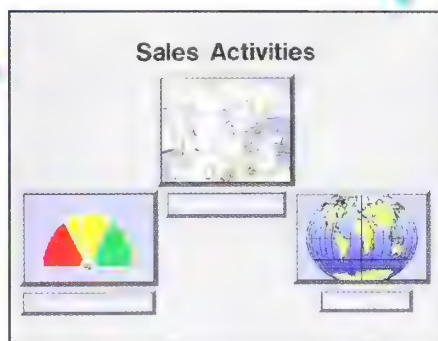


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WHY THINGS ARE SO SOUR AT BORDEN

CEO D'Amato admits to strategic blunders and marketing missteps. Now, he is regrouping

In the span of one very, very bad year at Borden Inc., CEO Anthony S. D'Amato has undergone a startling transformation. Once robust and energetic, he now looks ashen. Barely graying at the temples last fall, his hair has now gone almost completely gray. To look at him is to understand the strain of running a company that is the food industry's poorest performer. "It has been a lot of hard work, and it hasn't been fun," says D'Amato.

A year after D'Amato, 63, implemented a sweeping strategy to reinvigorate the ailing food giant, the New York company is worse off than it was before. Two of its four businesses, dairy and snacks, now operate at a loss. Including the other lines—grocery products and chemicals—operating income could dive an astonishing 45%, to \$305 million, this year, as sales drop 8%, to \$6.6 billion, figures Prudential Securities Inc. analyst John M. McMillin.



CLEANUP HITTER? HEIR APPARENT SHAMES (LEFT) WITH D'AMATO

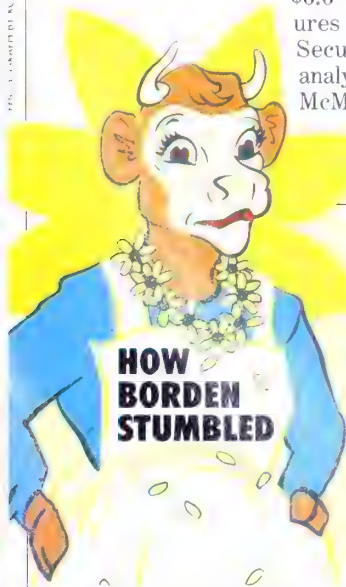
Largely because of the slumping performance, Standard & Poor's Corp. downgraded much of Borden's debt on Oct. 27. In the meantime, its share price has plummeted 43% since the beginning of the year, to 16%.

"WE'RE HURTING." What went wrong? D'Amato acknowledges that a flawed strategy of centralization, combined with missteps in marketing, pricing, and management, bear much of the blame for Borden's increasingly poor results. "We

self-inflicted crime upon ourselves," he says. "We're hurting." And now Borden plans still more changes. By the end of the year, it will place some of its 50 businesses on the block. To help in those decisions in June, D'Amato hired Ervin R. Shames, 53, as president and heir apparent. Unlike D'Amato, a chemical engineer who spent 30 years in Borden's chemical unit, Shames has an extensive resumé in the food business. A former CEO of Stride Rite Corp., Shames once headed General Foods USA and Kraft USA.

To be sure, everything wasn't milk and honey at Borden when D'Amato took the helm in November, 1991. Under his predecessor, Romeo J. Ventres, Borden took on \$1.9 billion in debt to acquire 91 regional food and industrial companies in the 1980s. Problem was Borden continued to operate as a clutch of unintegrated businesses. As a result it was less efficient than many large rivals and lacked their marketing clout, too. As sales jumped from \$5 billion in 1986 to \$7.1 billion in 1992, operating profit margins fell from 9.9% in 1986 to 5.2% in the first nine months of 1993.

Once he became CEO, D'Amato se-



REVENUE FOR FIRST NINE MONTHS 1993 SALES \$6.6 BILLION DOWN 8% PROFITS \$60.3 MILLION DOWN 72%

DAIRY Raw-milk prices fall, but Borden refuses to lower its prices, hoping to improve margins. Instead, competitors clean up. Attempt to raise ice cream prices backfires as well. Borden's dairy sales drop more than 7% in the first nine months of 1993, to \$1.3 billion. Division operating at a loss.

*COMPARISON EXCLUDES 1992 RESTRUCTURING CHARGE

PASTA Borden ignores strong regional brands, such as Prince in the Northeast and Anthony's in the West, and throws all its advertising support behind Creamette, the leading national brand. Regionals stagnate, and Creamette sales fail to take off. Division sales drop 8% in first nine months, to \$600 million.

SNACKS Company tries to roll out a national brand of chips this year, but test marketing results are not encouraging. Meanwhile, unsupported regional brands continue to weaken. Market share in chips falls 16%. The result: Sales off 6% in first nine months, to \$800 million. Business operating at a loss.

DATA: COMPANY REPORTS, INFORMATION RESOURCES INC., BUSINESS WEEK

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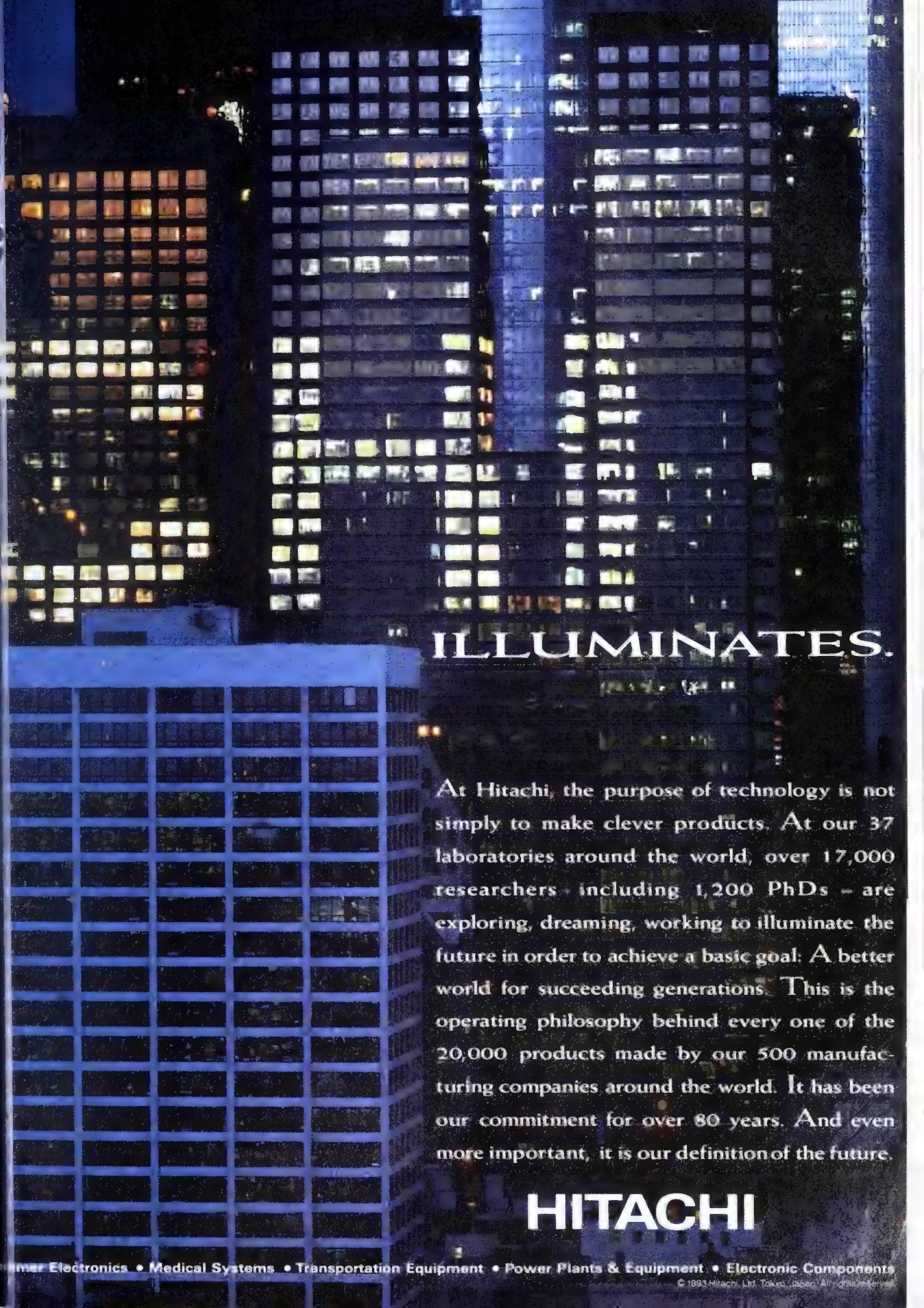
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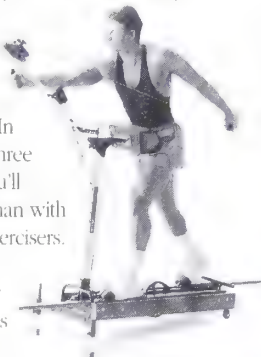
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out to rationalize Borden's jumble of consumer food businesses. Instead of dozens of independent fiefdoms running brands that range from Cracker Jack to Classico pasta sauce to Meadow Gold milk, Borden would try to become a truly integrated company.

That meant centralizing far-flung management at the company's administrative headquarters in Columbus, Ohio. It also called for eliminating or selling many of Borden's small regional businesses while focusing its efforts on building national brands. Analysts applauded the game plan at the time. But once



BRAND RECOGNITION

ASIDE, MOST CON-

SUMERS BELIEVE THAT MILK

IS MILK AND WON'T PAY

PREMIUM PRICES FOR IT

D'Amato began tinkering with Borden, he found that every fix brought new, unforeseen problems. "We didn't pay enough attention," he now says. "When you make a change, you better be aware of the impact of that change."

Take D'Amato's effort to boost the margins of dairy products, Borden's second-largest business. Since the company's own research showed that 97% of consumers recognized Borden as a leading milk brand, D'Amato reckoned that he could charge a premium.

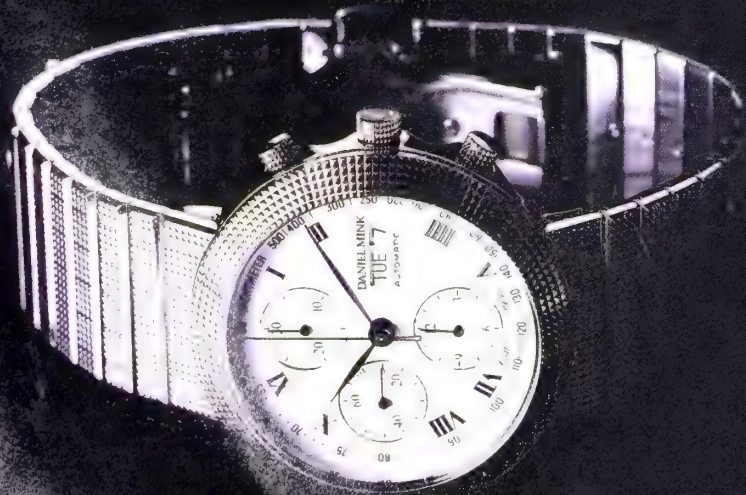
LAUGHING RIVALS. Brand recognition aside, though, most consumers believe milk is milk. In the face of a steep drop of as much as a third in raw-milk prices in early 1992, Borden held its prices steady. And before long, it began losing customers. "The dairy industry all laughed" at Borden's pricing policies says one competitor, who says other dairies were quick to profit from Borden's misstep. Still, D'Amato and other top executives decided to tough it out, hoping that higher margins would offset slightly weaker sales and boost the division's overall profits.

But sales continued to tumble. In the end, D'Amato waited almost a full year before scrapping the premium-pricing policy. By then, the division was operating at a loss. Why the delay? D'Amato blames poor internal controls. After Borden began settling a series of allegations of price-fixing first brought by the Justice Dept. in the late 1980s, he did away with the division's 40 regional managers, who set prices independently. But by centralizing their duties among

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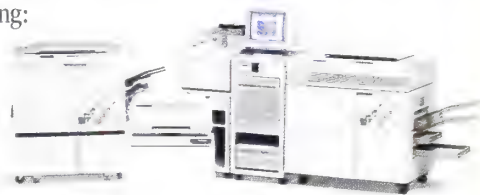
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five managers in Columbus in 1991. D'Amato eliminated Borden's eyes and ears in the highly regionalized business.

What's more, Borden's computerized information systems that track sales and profits were in disarray, as D'Amato tried to forge one unified system from several incompatible ones. "Dairy is an unmitigated disaster, [signaling] all that's gone wrong with Borden," says Prudent's McMillin. D'Amato has since returned to competitive pricing in the milk business. The experiment, however, has done considerable damage. "If we had sat there and done nothing to dairy, our bottom line would be better," he says.

D'Amato's attempts to overhaul Borden's pasta business also backfired in unexpected ways. Last year, as part of his big-brand strategy, Borden boosted its marketing efforts for Creamette, the leading national pasta brand. But Creamette didn't make great gains among consumers. Despite its bigger marketing effort, the brand's sales rose just 1.6% in the last year, figures Information Resources. Pretty bad, considering that total U.S. pasta sales rose 5.5%. Much of the advertising was built around recipes that did more to promote pasta consumption than to build Creamette's image.

At the same time, Borden neglected its regional pasta brands, such as Prince in the Northeast and Anthony's in the West. Their sales withered, dragging the division's revenues down 7.7%, to \$600 million, in the first nine months of 1993. "There was a very strong desire to make Creamette the one bigger brand beyond anything else," says D'Amato. "That's a great objective, [but] when you do it at the expense of your strong regional brands, maybe it doesn't make any sense." Borden resumed advertising for Prince in September and is replacing its Creamette advertising with a new campaign that highlights the brand's superior ingredients.

MICHIGAN TUMMIES. D'Amato also learned the value of regional brands in the snack business. Last year, he hatched a plan to launch a national Borden brand of chips and pretzels that he hoped could one day replace many of the company's regional snack brands. By combining the regionals' manufacturing and distribution, he reckoned, Borden could cut costs and gain marketing muscle. Earlier this year, Borden tested the new snack line in Michigan. Shames calls the results just "O.K." Borden says it has yet to decide whether to proceed with a national rollout, but food industry experts suspect that the plan will be put on hold.

The problem, says Gary M. Stibel of

Jew England Consulting Group, is that there is no room for another national snack brand beyond PepsiCo Inc.'s Frito-Lay and Anheuser-Busch Inc.'s Eagle Snacks. Borden is wiser to "hide in the woods and throw sniper fire with regional brands like Jays and Wise," Shames apparently agrees: He is refusing Borden on regional powerhouses such as Jays in the Midwest and Wise in the Northeast. Only this time around, Borden will actively market and advertise its local favorites. "There's a lot of power in those regional brands," Shames says.

D'Amato and Shames are now tackling Borden's problems together. They've

 **OUTSIDERS ARE**
WONDERING HOW
BORDEN'S BOARD COULD
HAVE LET THE SITUATION
DETERIORATE SO

put a stop to Borden's practice of offering deals to retailers on end-of-quarter shipments, which helped sales figures while hurting profits. Both agree the company is spread too thin in too many lackluster businesses. By the end of the year, they say that they will decide which of Borden's businesses will be sold. "We're going to try to identify what we want to be, and what we can do," says D'Amato. One early favorite on the auction block is Borden's \$1.4 billion chemical business, which has little to do with its core food properties.

MR. WONDERFUL. Still, given such a roster of disappointing strategies and poor results, outsiders wonder how Borden's board could have let the situation deteriorate so. Big shareholders such as Brian C. Rogers, managing director of T. Rowe Price Associates, are growing increasingly frustrated with management. "I managed money the way they managed the company, I'd be out of a job," Rogers says. None of the company's outside directors would comment for this story.

D'Amato acknowledges that the past year has cost him some credibility—which he hopes the calm and assured Shames will help restore. "We call Erv r. Wonderful,' because right now he hasn't been here long enough to lose credibility," says D'Amato. Perhaps D'Amato hopes to live out the company's eternal creed, attributed to founder Gail Borden: "I tried and failed, I tried again and again, and succeeded." After all, he's already done the first part.

By Elizabeth Lesly in Columbus, Ohio

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The dream of playing pro basketball eluded David P. Jensen years ago. Still, as the 32-year-old sales executive for CompUSA Inc. sailed across half court and sank a 20-foot jumper, he looked like much more than a Michael Jordan wannabe. And the competition wasn't exactly a bunch of fumble-fingers—NBA legends Bob McAdoo, Michael Cooper, George Gervin, and Calvin Murphy. Playing ex-pros, says Jensen, a former Southern Illinois University guard, "was a real thrill. I never made it to their level, so this is as close as I'll ever come to playing in the NBA."

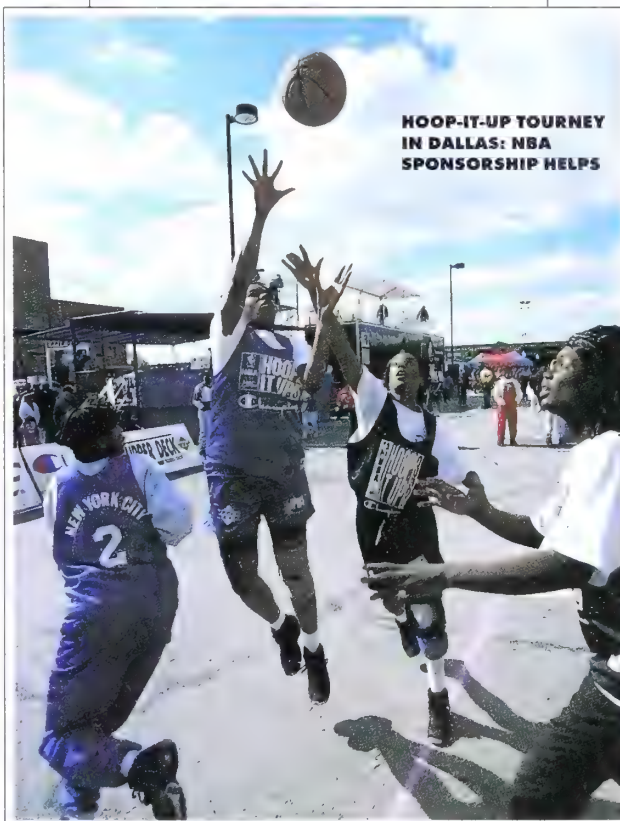
A converted parking lot in downtown Dallas on a chilly Sunday afternoon is a long way from the pros. But to Jensen and other Team Houston players whose reward for winning the 1993 Hoop-It-Up Men's Division World Championship was this game, it was close enough.

Begun in 1986 as a charity event for the Texas Special Olympics, the 3-on-3 (plus a substitute) b-ball tournament is now one of the most successful grassroots sports-marketing vehicles in the country. With the backing of such powerhouses as the National Basketball Assn. and NBC Sports, which will air a one-hour Hoop-It-Up special on Nov. 13, the games will bring in revenues of more than \$5 million this year for Streetball Partners International Inc. The Dallas marketer now aims to accelerate its growth by branching into football, baseball, and volleyball.

OLD SPARTAN. The man behind this sports machine is Terry Murphy, 53, once a bench warmer for the San Jose State Spartans. Three years after Hoop-It-Up started, it was attracting 2,000 teams—five times the number that signed up the first year—and Murphy quit his job as publisher of Dallas' now-defunct *D Magazine*. "That's when I realized this could be a business, a great marketing vehicle because the adver-

tising business was changing," he says.

Almost immediately, Murphy grabbed the attention of PepsiCo Inc., which forked over \$1 million to become chief sponsor. With the additional cash, Murphy brought the tournament to 18 cities in 1989. But the aggressive expansion took its toll: Streetball was \$290,000 in the red by yearend. It was rescued by a \$300,000 cash infusion and much-needed



**HOOP-IT-UP TOURNEY
IN DALLAS: NBA
SPONSORSHIP HELPS**

management expertise from Dallas investor Chuck Jarvie, former president of a distiller, and his son Doug, who now serves as Streetball's president.

Since then, the business has been a slam dunk for CEO Murphy, who parted company with PepsiCo amicably in 1991 and promptly aligned with NBC Sports, which holds a minority stake in Hoop-It-Up. Since NBC began broadcasting the Hoop-It-Up finals in 1991, tournament entries have increased by 97%. The network also helped Murphy attract the

NBA, which has sanctioned Hoop-It-Up as its official 3-on-3 street basketball tour. With NBC and the NBA at its side, Hoop-It-Up has drawn a slew of national corporate sponsors, including Spalding, Converse/Foot Locker, Upper Deck, Gatorade, and AT&T. Are sponsorships worth the minimum \$600,000 price tag? "Hoop-It-Up gives us the perfect opportunity to...put the ball right in the hands," says Scott Dickey, a product manager at Spalding. Beth Bass, Converse's national sports marketing manager, says players redeemed more than 16,000 shoe coupons this year. "Our involvement in Hoop-It-Up is definitely paying off," says Bass.

HOT DOG MONEY. Half of Streetball's revenues comes from national sponsorships. The rest comes from local sponsors, team entry fees, which vary from \$75 to \$100 depending on the city, and sales of merchandise, food, and beverages. Hoop-It-Up continues to donate a portion of its proceeds to local charities in tournament cities. Earnings are about \$500,000, far less than the \$2.37 million Streetball has generated since 1986. "We hope [earnings] catch up to charity someday," says Murphy.

Streetball's expansion efforts should help. Murphy aims to boost sales and profits more than 15% with contracts to operate three new ventures. The National Football League's All-It-Out, which features 4-on-4 flag football, kicked off this fall and will stop in 28 cities. Coming next spring: Pitch, Hit & Run, a skills-based event for kids only, and Spike-It-Up, which features 2- and 4-person team volleyball.

And Hoop-It-Up is growing. The tour attracted more than 150,000 players and nearly 2 million spectators this year and will stop in 50 U.S. and 24 European cities in 1994. Open to players ages 10 and up, the tournament attracts everyone from weekend jocks to couch potatoes and former Olympians such as Nancy Lieberman-Cline. Lieberman-Cline, 35, a member of the 1976 and 1980 U.S. Olympic basketball team, helped Team Omaha grab the women's division 1993 Hoop-It-Up World Championship. "This is as big as winning the Olympics...because this is street ball. I grew up doing this," she says. That's the kind of tap that keeps Terry Murphy playing in the streets.

By Stephanie Anderson Forest in Dallas

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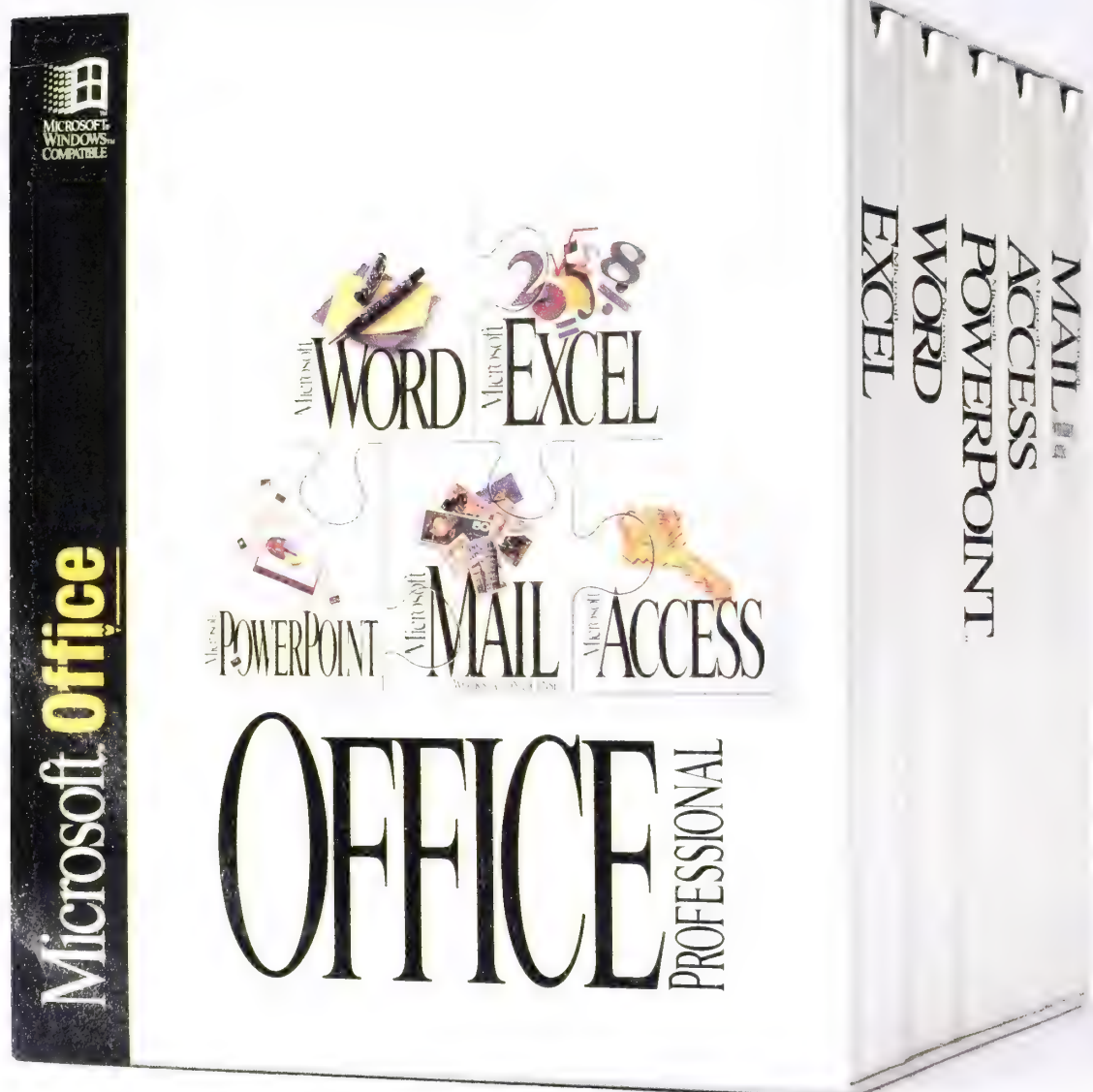
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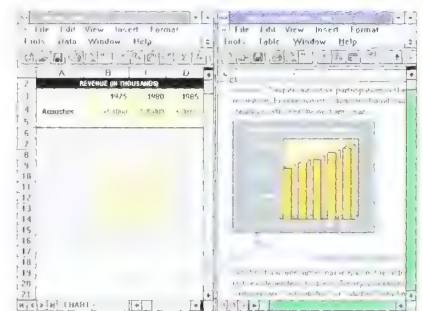
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NOVELL: END OF AN ERA?

Visionary Chairman Ray Noorda
says he'll name an heir soon

THE AVUNCULAR
NOORDA, 69, ADMITS
THAT AGE IS CATCHING
UP WITH HIM

For several years now, Raymond J. Noorda has had all the markings of becoming the Armand Hammer of computerdom. Granted, he is less cankerous than was the late chairman of Occidental Petroleum Corp. But at 69, the man running Novell Inc. has become the software industry's senior-citizen No. 2. Despite repeated calls from investors and his board that he name a successor, Noorda has always reacted in his trademark homespun style: With a gentle quip, a touch of irony, he has repeatedly tossed those ideas right back at the door.

The latest example came during an interview just last month. Hadn't the Novell board asked Noorda for a succession plan by the end of the year? "That was last year," the executive chuckled. "No, maybe it was two years ago, or maybe it was three. It's not a big issue. What's this word? Death? Retirement? Expire? I tell them I'll probably expire before I retire."

Well, Noorda isn't retiring. But he is planning to step aside. In a candid interview with *BUSINESS WEEK* on Nov. 9, Novell's avuncular chairman conceded that his age is catching up with him. There is "some truth" to rumors he has "memory losses," he says. And "there's no question" the problem has impinged on his ability to make day-to-day operational decisions.

Noorda plans to name an heir apparently by June 19, his 70th birthday. (He won't say whether that person will come from inside or outside the company.) He will stay on as "the chairman or chief adviser or whatever," he says. "I don't go on formality that much, to tell you the truth."

WINDOWS WATCH. Informality has been the idiosyncratic executive's seal since he invested in the scraps of a failing Utah company in 1983 and latched onto the germ of an idea called "local-area networking." Concluding early that large computers would eventually be replaced

by cheaper networks of personal computers linked through a new type of software, he quietly transformed Novell into a \$1.1 billion powerhouse by capturing 67% of what has become a \$2.9 billion market. Now the software industry's No. 2 player, Novell is the only serious threat to giant Microsoft Corp.'s punishing dominance. Noorda, in the process, has been canonized as one of the industry's true visionaries.

But Novell needs Noorda's vision now more than ever. Growth in both sales and earnings has slowed as Novell's flagship NetWare package enters a new product cycle. And Wall Street has begun to take notice (charts, page 94). Worse, Microsoft is taking aim at Novell's market with its new Windows NT operating system, a highly touted software program with built-in networking capabilities. Other competitors are building steam as well.

Meanwhile, Noorda has launched Novell on a risky new strategy to capture

the emerging new market for "distributed enterprise-wide networking." That's the buzz phrase for downsizing mainframes and minicomputers into networks of PCs, workstations, and server computers that stretch across an entire company. Until now, Novell's domain has been small groups of PCs connected in corporate departments or small businesses. Larger networks are the wave of the future.

To get there, Noorda dropped \$350 million in June to purchase Unix System Laboratories from American Telephone & Telegraph Co.—contributing to a \$320.5 million third-quarter write-off. The idea is to sell a Novell version of the Unix-based operating system that will work tightly with the company's NetWare software to provide much wider networking capabilities. But several rivals—including Microsoft—are hot on the same trail. And, says networking consultant Craig Burton, a former Novell executive: "There's a tremendous amount of room for screw-up."

BIG THINKER. That makes the question of who will lead Novell in the future all the more crucial. "We have been very much aware of this [need for succession] for a number of years," says Novell Director Jack L. Messman, president and CEO of Union Pacific Resources Co. "I don't think it's a crucial issue at the moment." But, "guys who have the will of a Ray Noorda or [former Digital Equipment Corp. Chairman] Ken Olsen don't give up very easily." He quickly adds: "We're not going to let it go on as long as it did with Ken Olsen."

Noorda is unsentimental about his memory problems. His frank response to the issue is laced with a sense of humor. ("Now, what's your name again?," he jokes with a reporter. "Who are you with?") And he insists that his doctor has assured him that his memory lapses are normal for a man his age. Behind the irony, however, his bold admission has to be painful. The problem has become acute enough, former Novell executives say, that he sometimes does not recognize people he has worked with for years. When he travels, he jots down his name and location—there have been times he has awakened in a hotel not knowing what city he is in or why he traveled there.

Noorda says the memory problems became worse after he received a pacemaker two years ago. But he denies that the impairment has hurt the company's performance. Executive Vice-President Kanwal S. Rekhi, also a Novell board member, says it is not an issue. "Ray does have short-term memory problems," he says, but Noorda is not handling daily operations. He is the com-

pany's chief strategist and "big thinker." In those roles, his long-term memory serves him well. "The fact is, the company has been run fairly effectively under him," Rekhi says. It is that solid track record that enabled Noorda's candor on the subject, Rekhi adds, noting that "Noorda is not a typical CEO. He's not self-conscious. This is no big deal. He probably thinks: Look at my numbers. Look at my performance."

Look, indeed. Novell's earnings have grown from 35% to 153% each year since the company went public in 1985. And return to shareholders? One thousand shares of Novell stock bought for \$300 in January, 1985, would be worth an esti-

mated \$22,000 today—a 7,300% increase. From the beginning, Noorda had the guts to predict computer hardware would be a low-margin, hard-luck, commodity business. Hardware made up 50% of the company's revenues in 1985, but Noorda guided Novell out of it by 1991, punctuating his point for awhile by carrying around a box of \$10 wristwatches. "Hardware only gets cheaper," he would say.

Noorda reveals in his eccentricity. To outsiders, he seems a humble country boy. He listens more than he talks, and when he does talk he uses aw-shucks one-liners that charm and disarm. He is, in fact, the son of Dutch immigrant parents who settled in Ogden, Utah, in the 1890s. His father worked 16-hour days at two jobs—as a stock clerk and janitor. And neither parent attended school past the fifth grade.

A devout Mormon who donates freely to the church, Noorda's lifestyle belies his wealth. While his Novell stock alone is valued at \$650 million, he insists on flying standby to get a senior-citizen discount. Dining out, he likes to eat Sizzler for the same reason. As for his salary, he started at Novell in 1983 making \$90,000. But when two of his sons began working at the company three years later, he decided that for every dollar they were paid, he should eat one less. His salary dropped below \$40,000, but when his sons left in 1988, he didn't raise his wages. Embarrassed board members did that for him last year, raising his pay to \$198,830.

"I just don't like to spend a lot of money for things," Noorda says. That is evident at Novell's offices, which defy the word Spartan: The walls are beige and the corridors are so devoid of artwork that Novell employees refer to headquarters as the "space station." Even when company revenues were growing 30% to 40%, says Director Messman, Noorda instituted spending cuts. "Ray has a maniacal focus on costs," Messman says. "It's a means of setting an attitude at the company."

CRAFTY CAPITALIST. Indeed, there is plenty of method beneath Noorda's infamous quirky style. The bottom line is that he's a tough, shrewd businessman. "Don't let that old-coat Columbo, I'm getting-old thing fake you out," says Scott McNealy, CEO of Sun Microsystems Inc. "Ray's a crafty, entrepreneurial capitalist." Just ask Microsoft Chairman William H. Gates III. Working with the Federal Trade Commission, Novell's chairman played a key role in trying to ensnare Microsoft in a federal antitrust action. His folksy quotes reviling Gates' industry dominance come often enough that some Microsoft executives call him



e "grandfather from
ill."

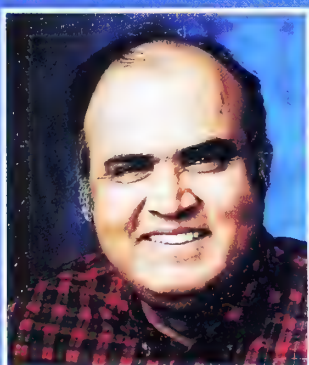
Though relations
ve improved, Noorda
so irritated Lotus De-
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his directors balked
Lotus' insistence on
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COOPERATION." Much

Noorda's nice-guy
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es have hurled invect-
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ent years encourag-
ing rival high-tech com-
panies to work togeth-
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ory is that if the in-
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uld be nowhere. Network software
like glue. In a system, it connects
mputer hardware and software made
a variety of competing vendors. It is
solutely necessary for the different
hнологies to interconnect, and cooper-
on on standards is key to that non-
n. "It's what customers want," says
ke Passaro, vice-president for world-
le sales at Citrix Systems Inc., which
partnering with Novell on software
it zips applications across a network.
his is one of Ray Noorda's strengths."
The point is, Noorda's style is a facil-
tor for his vision. And both may well
irreplaceable. Nevertheless, while
ll Street is concerned about the com-
ny's short-term earnings momentum,
estors say they have already dis-
unted the fact that Noorda can't stay
forever. "The problem with Novell
people look at it as a one-man compa-
" says Montgomery Securities ana-
t Douglas F. Whitman. "But I don't
nk that's realistic."



WHO WILL TAKE NOORDA'S PLACE? GIVEN NOVELL'S LOST MOMENTUM, THE ANSWER IS CRUCIAL

NO LACK OF POSSIBLE HEIRS:
KANWAL REKHI (LEFT) AND,
CLOCKWISE FROM TOP, MARY
BURNSIDE, JIM TOLENON,
JOHN EDWARDS, AND
RICHARD KING

In fact, for the past 18 months, Noor-
da has begun moving prominent Novell
executives into bigger roles. The most
notable change was creating an "office of
the president" last August. It includes
Noorda and two longtime Novell manag-
ers: Mary Burnside, executive vice-pres-
ident for operations, and James R. Tole-
non, senior vice-president and chief
financial officer. Both, at times, have
been leading candidates among the ru-
mored successors. But so have Kanwal
Rekhi; Richard W. King, general manag-
er of the NetWare Systems Group; and
John W. Edwards, another executive
vice-president. Several other would-be
successors have come and gone over the
years.

As usual, Noorda is playing his cards
close to his vest. On the one hand, he
says the search for a successor has
moved beyond Novell's ranks. "I think
the natural case would be to look out-
side to see if there is someone who can
take [Novell] through the next level of

growth. Nobody in our
company has been in a
company this big," he
explains. But he isn't
ruling out an insider.
The three names men-
tioned most frequently
are Burnside, Tolenon,
and King.

Burnside, 45, is a
top-notch operations
manager who is direct,
forceful, and has Noor-
da's confidence. Burn-
side first met the boss
in 1976, when Noorda
was brought in to turn
around the failing oper-
ations of System Indus-
tries, a Silicon Valley
manufacturer of periph-
eral systems. After
Noorda joined Novell,
he lured Burnside over
to the company in 1988
because "she is really
good at making the
most of what you've
got," he says. Still, her
lack of technological ex-
perience could be a
drawback. "She hasn't
run companies," Noor-
da says. "At this stage,
you'd probably have to
look at someone who
has run a business."

WHIZ BANG. King, 37,
is the technical expert.
He joined Novell in
1985 and has managed
software development,
customer service, and,
most recently, all of
NetWare development.

Tolenon, the 44-year-old CFO, is a whiz at
getting the most bang for the buck—
something near and dear to Noorda's
heart. But Noorda won't comment di-
rectly on either King's or Tolenon's
chances of succeeding him. He'll only
commend each of the executives on a
job well done.

Tolenon, however, offers this on the
succession issue: "There are a number of
people within the company who could
do it. But there is no one who could
easily and clearly replace the Noorda
persona." And that may be the problem
as Novell moves forward. Emphasizing
that he has no specific plans to exit the
company altogether, Noorda says: "I
can't afford to leave. I have 10% of the
company. I'm going to look after it very
carefully for a while." Despite every-
thing else, that's very good news for
Novell.

*By Kathy Rebello in Provo, Utah, with
Robert D. Hof and Russell Mitchell in
San Francisco*

THIS WEEK ON THE HAFTS...

For now, Ronnie and Herbert rule. But tune in tomorrow

Ronald Haft has settled back for the ride in the deep leather seat of his black sedan. He has given instructions to his trusty chauffeur, Fairchild, and is talking briskly about the recent bewildering history of the Haft clan. Over the past year, his family has been blown to smithereens in a public feud that has become more ugly with each passing day. And the boyish-looking 34-year-old—having helped his father oust his brother and mother—has emerged from the bitter power struggle as president and largest shareholder of both the Dart Group Corp.—the Haft's \$1.2 billion retail empire—and the family's real estate holdings.

That Ronnie Haft should ascend to the perch manned so effectively by his brother, Robert, is—to put it mildly—controversial. So it's no surprise that a reporter has been invited along this November day to watch the new president in action. As Fairchild speeds toward a mall Ronnie is rehabilitating in Manassas, Va., the conversation drifts from an unemotional appraisal of the family situation ("I think in the end they will understand that growing the company is the best thing I can do for them.") to unctuous praise for his formerly estranged father, Herbert ("He's a great man, a visionary. I owe him everything."). "Am I the heir apparent?" Ronnie asks finally. "Yes, I am. Definitely. Have I spoken to my father about where things will go in the future? You bet. I am in charge now."

It was just that kind of talk by Robert Haft in *The Wall Street Journal* seven months ago that helped spur his father to oust him in the first

place. And today, there is little doubt that 73-year-old Herbert Haft remains very much in charge of the Dart Group. Evidence in court documents suggests that the senior Haft may have embraced Ronnie largely to suit his own purposes in a feud that has pitted him against his wife, Gloria, his daughter, Linda, and Robert. The arrangements for Ronnie to become the largest Dart Group shareholder, meanwhile, appear designed to protect Herbert's stake from divorce proceedings initiated by Gloria.

JUDGMENT CALL. The problem with this strategy is that a divorce court judge could overturn the transactions that created Ronnie's stake, in an effort to split the Haft estate down the middle between husband and wife. That would return control to Gloria, Robert, and Linda, and—in the end—it would likely finish Ronnie's tenure at the helm.

The story of how Ronnie Haft arrived in the corner office is as disturbing as it is intriguing. It is the troubled tale of a disaffected son trying to win his strong-willed father's approval. In the balance, of course, is the Dart Group, a Landover (Md.) holding company that owns stakes in Crown Books, Trak Auto, and Shoppers

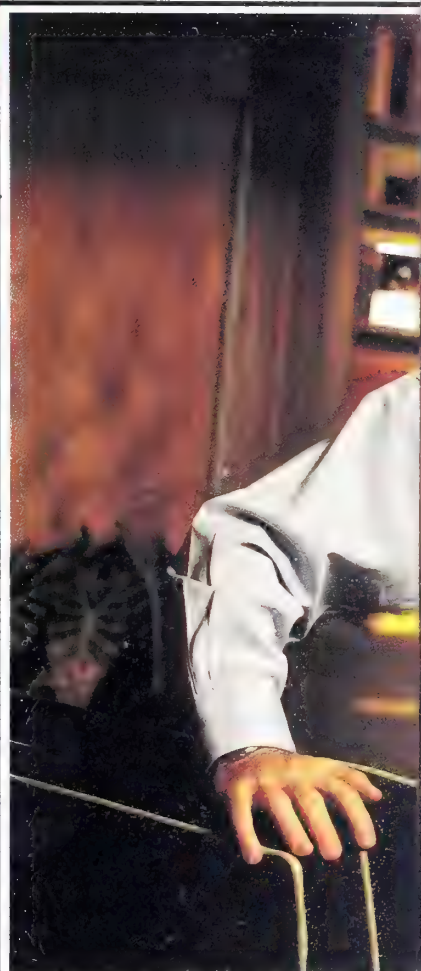


HAPPIER DAYS: HERBERT, ROBERT



ESTRANGED: GLORIA

**DESPITE
RONNIE'S
ASCENSION,
THERE IS LITTLE
DOUBT THAT THE
73-YEAR-OLD HERBERT
REMAINS IN CHARGE OF
THE FAMILY BUSINESS**



Food Warehouse—not to mention a private real estate portfolio that includes strip malls. Whether these companies can endure the pitched battle raging above them is uncertain.

Earning a place at his father's side didn't come easily for Ronald. For years, he was the outcast brother who dallied at real estate, while Robert, now 41, helped Herbert build Dart's thriving retail chains. Shuttleing between homes in Laguna Beach, Calif., Key West, Fla., and Washington, Ronald led the scion's life, traveling in limousines with caviar and masseuse in tow. Making matters worse for Herbert was that Ronald is gay, something several family members say the elder Haft couldn't get past. Ronald insists his sexuality has never been a problem for his family.

It was Gloria who was Ronnie's biggest champion. Mother and son often inspected family properties and traveled together to real estate conventions. Often, as in 1989 and 1990, when Ronald wanted to purchase commercial real estate in California, Herbert objected. It was only when his mother interceded that the transactions went through.

That's not to say that Ronald hasn't had accomplishments. At 18, he earned a Maryland real estate license and sold millions of dollars' worth of property.



**RONNIE HAFT
NOW CALLS DAD
"A VISIONARY"**

earned an MBA from the University of Pennsylvania's Wharton School, studied law at the University of California at Los Angeles for a year, and dabbled in acting before returning to Washington in 1981. There, he was in charge of the family's real estate interests, building assets from \$100 million to \$500 million and boosting occupancy from 79% to 95% as he helped spruce up the malls.

POWER PLAY. When family tensions exploded, however, Ronald turned abruptly on his mother. The reason, he says, was to help Herbert thwart what he perceived as a bald-faced power grab by Robert. Others close to the situation believe Ronnie's change of face had more to do with a \$4.6 million bonus his father gave him in December, 1992. Ronald says the bonus was based solely on performance. Other sources speculate that Robert's behavior was fueled by jealousy of his father's relationship with Herbert. "He did it to earn his father's respect," says one former director.

After the family actually began to unravel in the spring of 1991, when Herbert developed an irregular heartbeat. As he became frightened and depressed, succession became an issue. Robert, a Harvard MBA who was popular on Wall Street, began to intimate in press accounts and among analysts that he was

calling the shots. Tensions were already on the rise; Robert had confronted his father about an affair Herbert was said to be having with a younger woman. Herbert, fearing Robert was trying to force him out, began to consolidate his holdings in Dart and the real estate companies.

Although Herbert controlled 57% of Dart voting stock, the family's real wealth lay in real estate. Gloria and Herbert together owned 51% of the Haft real estate management firm, Combined Properties Inc., and 51% of the real estate company it managed, Combined Properties Limited Partnership. The rest was divided equally among the three children, giving an alliance of Gloria, Robert, and Linda effective control of both companies. Meanwhile, the family's financial unit, Combined Resources Limited Partnership, is owned in equal shares by all five Hafts, giving any three a majority.

Herbert's strategy was to lure Ronald to his side and to force Robert and Linda to accept limited-partnership status in the real estate ventures. His leverage: Not only could he vote his eldest son out of Dart, but Robert and Linda, like the other family members, had taken personal loans from Combined Resources. As a partner, Herbert could demand immediate payment.

Robert was removed as Dart president in late June but never acquiesced to become a limited partner. Instead, Herbert and Ronald turned up the heat on Linda and secretly transferred \$11 million into accounts they controlled. Ronald says it was not uncommon for

family members to transfer funds, without informing one another.

Late one night in June, Herbert called his daughter to Ronald's house, citing "an emergency." There, court documents say, Herbert told her that lenders might call certain loans, putting the family business in jeopardy. He handed her a four-page document and asked her to sign it. It would convince lenders that the Hafts' business affairs were in order, he said. Ronald signed a paper he was handed, and without reading the document or consulting her lawyer, Linda signed hers as well. Later, she realized it granted broad power of attorney to Herbert and Ronald to conduct business affairs on her behalf. Linda tried to get the paper back, but Herbert and Ronald refused to return it.

DISTRACTIONS. The next day, Ronald and Herbert had two safe-deposit boxes drilled open at the Chevy Chase (Md.) branch of First American Bank. One box belonged to the children, the other to Herbert and Gloria. Ronald says all he retrieved that day were stock certificates for 75,738 shares of Class B Dart voting stock. But Robert insists his brother also took a blackmail letter from one of Herbert's paramours, which could have been used in the divorce trial.

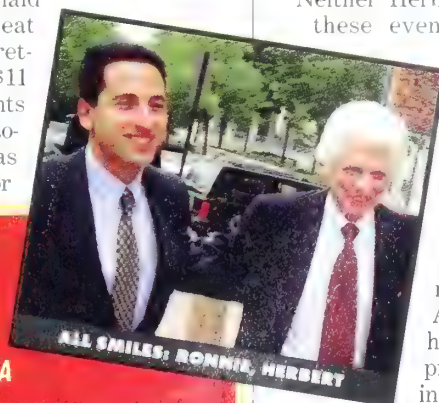
With the stock certificates and power of attorney over Linda's share, Herbert was able to dilute the rest of the family's stake in Dart. Ronnie became the largest stockholder, and a month later, the same sort of dilution was accomplished at the real estate management company. In August, under repeated pressure, Linda finally became a limited partner in the real estate holdings, cementing Herbert's and Ronald's control.

Neither Herbert nor Ronald dispute these events. But the terms of

Robert's ouster, the validity of the stock transactions, and the money transfers are being contested in various state courts. At the judge's discretion, divorce proceedings could also invalidate many of the transactions. An independent auditor has been appointed. A preliminary report is due in December.

The outcome is anybody's guess. In the meantime, there are questions about Ronnie Haft's ability to run Dart. Although the retail chains have solid management, Ronnie has no retail experience. And if he's not distracted by the family feud, he ought to be. "I'm in the best position to lead these companies into the future," Ronnie says. He is now. But maybe not for long.

By Mark Lewyn in Washington



ALL SMILES: RONNIE, HERBERT

THE LATEST EPISODE OF THE HAFT SAGA

**RAISES THE QUESTION: CAN THE
BOYISH-LOOKING 34-YEAR-OLD
SCION—WHO HAS LITTLE RETAIL
EXPERIENCE—EFFECTIVELY RUN
THE DART GROUP?**

THE INFORMATION APPLIANCE

WILL THE PC BECOME THE ALL-PURPOSE TOOL FOR THE DIGITAL AGE?

The roar of the Information Superhighway is getting a lot louder a lot sooner than anyone expected. When the concept of a huge interactive, digital network first began taking shape in the late 1980s, nobody expected to see much of it before the end of the century. But the frenzy of dealmaking between phone companies, entertainment conglomerates, and cable operators is pushing up the beginning of the highway to the next two to three years.

Only one problem: What will be the gadget we use to harness that flood of digitized traffic—the phone calls, movies, TV shows, data bases, on-line magazines, and shopping services coming into our homes and offices? Before the all-digital lifestyle takes root, we'll need some kind of device—or a series of them—to manage the information flow. Think of it as the information appliance—a device that will be as commonplace in a few years as the washing machine

or VCR is now. Information appliances will instantly make the connections to a world of digitized entertainment, communications, and data—on the superhighway or over the airwaves.

So what will the information appliance be? Some technology gurus say it will be a revolutionary new handheld device—a “personal digital assistant,” such as Apple Computer Inc.'s Newton MessagePad. Consumer-electronics companies are pushing the idea of a newfangled digital TV or a variation on the video-game player. The cable-TV industry is busy developing a souped-up version of today's converter boxes. 3DO, a San Mateo (Calif.)-based start-up backed by American Telephone & Telegraph Co. and Japan's Matsushita, floated one of the hottest initial public offerings of the year on the promise of a hybrid game player that would double as a set-top box.

It all makes the personal computer sound downright prosaic. After all, in the era of 500-channel, interactive digital TV,



PORTABLE

NO BIGGER THAN A NOTEBOOK, PREFERABLY POCKET SIZE, THE INFORMATION APPLIANCE WILL GO WHEREVER YOU GO

EASY TO USE
HATE THE KEYBOARD? THEN FORGET ABOUT IT: TALK TO YOUR APPLIANCE, WRITE IT, PUSH A COUPLE OF BUTTONS



who will want a PC? Indeed, while phone companies, media moguls, consumer electronics companies, and cable-TV operators are carving up the digital future, many PC makers seem caught in a depressing cycle of price-cutting, downsizing, and quarterly losses.

ON THE JOB. But for all the hype about intelligent TVs, smart cable boxes, souped-up video-game machines—all of which may eventually have their place—there's really only one machine right now that has what it takes to become the gateway to the dawning digital age: It's that old workhorse, the PC. “There is an infinitesimal chance that any of these new products—interactive games, set-top boxes, what have you—

will reach even 10% penetration of the home in the next five years," says Mark Stahlman, a consultant who heads New York-based New Media Research. "But the PC will reach 50% penetration

sooner than that, and therefore it will become the basis for everything else: networks, videophones, multimedia."

Why the PC? Mainly, because it's here—everywhere, in fact. More than 23 million are in use in offices, homes, and schools around the world. That peer momentum gives the PC a sizable headstart to become the information appliance of choice. And the accelerated approach of the superhighway only makes the PC a stronger candidate for information appliance. For all its user-unfriendly flaws, the PC has become a familiar tool in virtually every walk of life. People who can't program the clock or their VCRs can go to their desks, turn on their PCs, and type away. In growing numbers, they are welcoming PCs into their homes. Market researcher Link Resources Corp. estimates that 31% of U.S. homes have a PC, up from 26% 10 years ago—and concurs in Stahlman's prediction that PCs will be in half of all U.S. homes by 1998.

Those PCs will be ready for the information highway. While most of the buzz about the network centers on 500-channel, interactive cable TV, there will also be on-line magazines, archives of historical information, all sorts of directories and data bases, and dozens of services for home banking, investing, and education. "Only a minuscule amount of the information will be video," says John Warnock, chairman of Adobe Systems Inc., a maker of publishing software. And all these services can be handled

WIRELESS ON THE ROAD, YOU'RE STILL CONNECTED, VIA WIRELESS NETWORKS. DON'T LET A DELAYED FLIGHT SPOIL DINNER—ORDER CHINESE OVER THAT TERMINAL IN THE SEATBACK

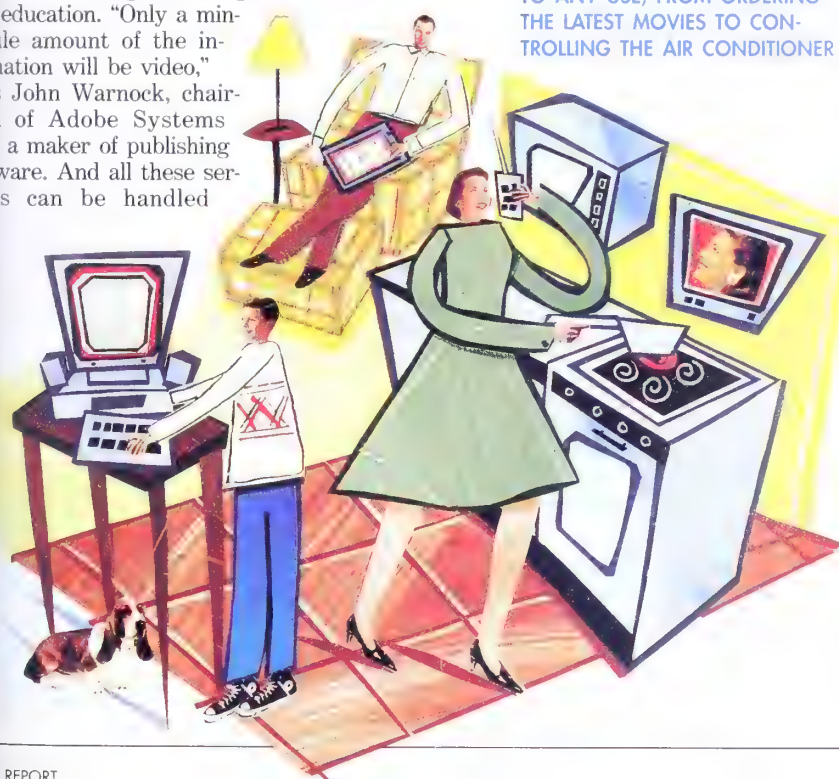


better on a PC, argues Nathan P. Myhrvold, head of advanced technology for Microsoft Corp. If you want to place a classified ad on interactive TV, for example, you'll need a word processor to write it. Most services on the highway, Myhrvold asserts, "are going to have some evolutionary relationship to existing computing."

PROTEAN PC. The key advantage for the PC in the new digital era—and the hope for PC makers—is its endless adaptability. A video-game player is a video-game player, a cable box is a cable box, and a phone is a phone. Granted, that's what makes them cheap and easy to use. It's also what makes them less than ideal in rapidly changing markets. But feed the PC new software and it can assume a new personality and take on new jobs.

No PC has been more widely adapted than the IBM PC and its clones. While

PROGRAMMABLE AT HOME, IT CAN BE ADAPTED TO ANY USE, FROM ORDERING THE LATEST MOVIES TO CONTROLLING THE AIR CONDITIONER



Apple Computer Inc.'s Macintosh and Newton (page 110), and perhaps some workstations, have a shot in the information-appliance race, the worldwide industry that has grown up around the PC almost guarantees it faster evolution—and lower prices. There's an infrastructure of thousands of companies to build, sell, and program machines that conform to the IBM PC standards. There are hundreds of companies constantly creating new hardware add-ons to extend the PC's powers and thousands of programmers dreaming up new software applications. This all makes it simpler, at least in theory, to upgrade the PC to handle new forms of data such as voice and video than to reinvent consumer electronics products. "It's easier to add another lane to a freeway than to erase a city and try to start over," says Intel Corp. CEO Andrew S. Grove.

The PC industry, of course, must keep evolving along with the machine. The past few years have brought relentless price wars and massive cost-cutting. That has forced out some marginal players, but survivors are now in the right shape to move into consumer electronics, first with today's home PCs, and soon with new information appliances. IBM, Compaq, Hewlett-Packard, and a handful of others figure the mega-volumes of these new markets are what could restore old levels of profitability. "We're convinced that we can get our cost structure down to a point where not only we can sell these appliances in high volumes, but we will make enough money off them to both satisfy our shareholders and allow us to provide other kinds of [on-line] services that will be even more profitable," says James Cannavino, former head of IBM's Personal Systems Div. and the company's newly named chief strategist.

How will the PC evolve into the information appliance? First, by continuing to incorporate the best features of other

computers. Today's PCs, for example, reflect the "look and feel" of the Apple Mac and the graphics and sound of the groundbreaking Commodore Amiga (chart). Steady advances in microprocessors and other components should continue the evolution. The power of Intel's new Pentium chip, for example, is being applied to make PCs "understand" speech. "As these microprocessors continue to get alarmingly fast, our developers have the luxury to use some of that computing power to work on the PC's people skills," says Cannavino.

The new information-appliance PCs will not only be user-friendly, they'll also come in lots of different shapes and sizes. Think of them as the gadgets on *Star Trek*. On the Enterprise, information appliances were everywhere. Handheld models diagnosed sick aliens and damaged transporters. There were computers that crew members talked to, typed into, and sent messages back and forth over.

So it will be with the information appliance in the home. There will be handheld devices, notebooks, desktop machines, even PCs that hang on the wall. Different forms will be used for different jobs or for tapping into the digital information flow in different locations. "People will own more than one PC—just like they have more than one phone and one TV. It's not that much of a leap of faith," says Robert W. Stearns, vice-president of corporate development for Compaq Computer Corp. Indeed, Channel Marketing Corp. predicts that by the year 2000, every home will have 2.5 PCs.

ON THE FLY. The evolution is already under way. Compaq, Apple, and IBM now sell desktop PCs that act on simple spoken commands. There are also machines that can "read" your handwriting—albeit with difficulty. PCs are shrinking, too, into sizes and shapes that will truly be able to go anywhere. Look at Hewlett-Packard Co.'s latest OmniBook, a 2.9-pound PC with a full-size keyboard and a 486 chip. Compaq and Motorola are both planning new handheld PCs that resemble the PDAs from Apple, EO, Casio, and Tandy and that will have built-in wireless communications. And, if you forget to pack your handheld appliance, don't fret. Soon, you'll be able to keep up with your electronic mail using terminals being installed by airlines in seatbacks.

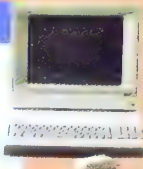
The most important new direction for the PC, however, is unquestionably multimedia. PCs equipped with CD-ROM drives, souped-up graphics, and sound cards are giving consumers a taste of what the Information Superhighway may bring—a catchy mix of graphics, video, and stereo sound for interactive learning and entertainment, on-line information

THE PC FAMILY TREE

HOME EDUCATION

APPLE II 1977

Easy-to-use software made them a hit with schools, and kids wanted one at home, too.



PORTABLES

LUGGABLE COMPUTERS 1982

Luggables such as Compaq's Portable PC meant computing on the go. But not many went very far—they weighed about 30 pounds and still needed an electrical outlet.

APPLE MACINTOSH 1984

It became even easier to use when "point and click" replaced typed-in commands.

LAPTOP COMPUTER 1985

Rechargeable batteries and LCD screens broke the desktop chains.



NOTEBOOK/SUBNOTEBOOK 1990

All of the features of desktop computers in a notebook-size box. Even smaller are "subnotebooks" weighing less than 4 lbs.

PERSONAL DIGITAL ASSISTANTS 1993

The keyboard is replaced with software that "reads" your handwriting. But the software still isn't accurate. Some offer wireless electronic mail and faxes, but communications are severely limited—and pricey.



THE NEW PORTABLES 1994-??

The problems with handwriting recognition will be ironed out. Wireless networks will allow easy data exchanges with other systems.

MULTIMEDIA DESKTOP COMPUTERS 1993-??

Future microprocessors will have the power of mainframes. The box that sits on the desk will understand your voice, find reams of data, and get last night's TV news stories.

BUSINESS PC

IBM PC 1981

The power of computing moved from the back rooms to the office desktop.



IBM PC XT/AT 1984

More memory and faster microprocessors made PCs better.

IBM PS/2 1987

PCs were broadened into sound and video data stored on CD-ROMs.



HOME ENTERTAINMENT



COMMODORE 64/128 1982

Commodore's machines worked with your TV set—and they came with games.

ATARI PONG 1976

Millions of us couldn't have cared less about programming or word processing. The cry was, "video games!"



COMMODORE AMIGA 1985

Continuing to focus on TV, the Amiga featured chips that could handle video images and sound—pioneering the idea of "multimedia computing."

NINTENDO 1985

For the generation that grew up on video arcades, home game systems were getting more complex and losing the clunky, jagged graphics.



SUPER NINTENDO/SEGA GENESIS 1991

Like the more "serious" PCs, game systems got beefed-up "brains" that allowed them to play advanced games recorded on CD-ROMs.

SET-TOP BOXES 1994-97

Boxes that sit on top of your TV—such as 3DO—will still play games, but will also link you with other viewers over an interactive game network. Cable boxes will tap the growing number of services available over expanding cable and phone networks. To order a dress or a pizza, just click the remote control.



services, and electronic books and magazines. Sales of multimedia machines are taking off: Market researcher InfoTech Inc. estimates that 3.5 million multimedia computers will be installed in the U.S. by yearend.

And from multimedia PCs, it is only a short trip to the marriage of PCs and TVs. Since January, Packard Bell Electronics Inc., a leading supplier of home computers, has been selling a multimedia PC with a special circuit card that lets customers watch TV programs on their screen. Apple has recently introduced a similar machine, the Mac TV, that looks like a television set with a keyboard attached. The Mac TV can accept CD-ROM computer disks and display captions on the TV programs. IBM is promising a TV receiver built into its notebook-size ThinkPad for next year, so couch potatoes need never miss a program.

Of course, everybody in the consumer electronics, telephone, and cable-TV industry sees where the PC gang is going—and they're eager to head them off. "IBM-compatible PCs, regardless of how they evolve, will not be a match for all the services and applications that become possible," says Takuma Yamamoto, chairman of Fujitsu Ltd., the world's No. 2 computer company after IBM. Like many Japanese electronics companies, Fujitsu is betting that video-game machines will be the route into the home.

Why? Because even now, PCs are just too difficult for the average consumer to bother with. Just ask former Apple Chairman John Sculley. Several years ago, he was one of the first to call attention to the coming convergence of computers, communications, and mass media. He began working on offshoots of Apple's Macintosh to catch that wave. But, he says, a decade after he entered the PC business all the changes in technology have not made much of a difference in how the machines are used. Then, 70% of all software applications were spreadsheets, data bases, and word processors—and today, that's still true. "It's why I went into the wireless world," says Sculley, now CEO of Spectrum Information Technologies Inc., a company that is developing wireless data-communications technology. "The phone doesn't require a lot of behavioral changes."

While hybrid computer-phones such as IBM's new wireless Simon are appearing, it's hard to imagine your typical phone sprouting into a full-blown information appliance. But it's not such a stretch for video-game machines. And, unlike most PCs, they are already in the living room, connected to the television. A third of American homes have a game player and two-thirds of the kids between the ages of 6 and 14 are regular

Special Report



**NUMBER
OF
TICKETS**

Date: August 13, 1993
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will be added to your cable bill

players. And games makers bring both a mastery of technology and a flair for marketing to the contest. "We're more concerned about competition from the games makers in Japan than we are about any U.S. competitors," says Robert J. Frankenberg, general manager of Hewlett-Packard's Personal Information Products Group.

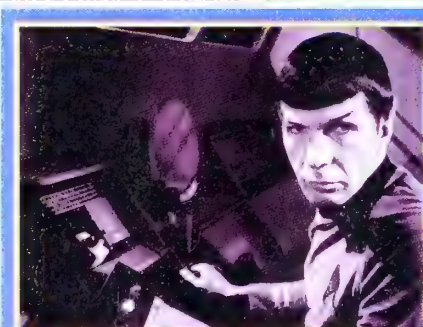
CASH BARRIER. But games makers and all the other contenders in the appliance race have their own handicaps. A state-of-the-art interactive game player from 3DO Corp., at about \$700, is more money than most parents want to spend on what is still perceived as a toy. And even Sculley acknowledges that the phone must still be "reinvented" before it's smart enough to be the gateway to the information highway.

Makers of cable equipment also face some big obstacles. While they talk of "smart" cable boxes to manage the intricacies of 500-channel, interactive TV networks, they concede that such devices are still only in the prototype stage. Even then, they lack the computing power, storage capacity, and software to manage the kind of information that PCs handle routinely. And they're not likely to gain much intelligence because cable companies figure the cost must be kept to a few hundred dollars. That's fine if the only thing you want off the Information Superhighway is a wide choice of something to watch and the ability to conduct a few simple transactions using your remote control.

PC makers are betting that for a few hundred dollars more, consumers will go for the machine that not only controls

the TV and plays games but allows them to work at home. Granted, a PC, at about \$1,000, is a pricey home purchase. But if the alternative is to buy a sophisticated set-top controller, and a digital TV, and a game machine, and a smart phone, all costing \$200 or more each, an all-purpose device sounds a lot more attractive.

True, the PC makers still have to prove the case to consumers—and prove to themselves and investors that they can cut it in consumer electronics. In addition to slashing costs, companies such as Compaq and IBM's PC division have moved into every possible channel of distribution, from mail order to discount warehouses to traditional department stores. They are in every geographic market, make PCs for every



**FROM DESKTOP PCs TO
TINY COMMUNICATORS—
A LOGICAL PROGRESSION?**

INTERACTIVE PCs WILL LET TV VIEWERS WATCH A GAME AND BUY TICKETS FOR ANOTHER

class of user, manufacture the worldwide, are constantly adding new models, while slashing price. "Us PC guys really understand what it's going to take to drive these products into markets where margins are slim and the pace of technology is incredible," says Howard Elias, vice-president of marketing for AST Research Inc. and a veteran consumer-electronics marketer. "I don't know very many companies jumping into this Information Highway business that understand how to do three or four product cycles a year."

Meanwhile, millions of consumers are getting ready for the Information Highway by playing with their multimedia PCs. "How does multimedia differ from the highway?" asks Mal D. Ransom, marketing vice-president at Packard Bell. Very little, he maintains. Those owners who are browsing interactive CD-ROM encyclopedias and logging on to on-line services such as Prodigy, CompuServe, and America Online can simply switch over to the Information Highway when it arrives. "The transition for the Prodigy user will be a lot shorter than that, say, of the cable-TV user," says Ransom. "You won't have to sell a whole new concept to them."

Certainly, there's a big "if" to the strategy of using the PC as the gateway to the Information Highway, and that's the nature of the highway. The telephone and cable industries are battling, and courting, each other right now to determine which one will build and operate the networks that will pour the interactive video, games, and voice into the home. Whoever wins that battle will have a big say over what type of hardware device will be at the end of the line. For now, says David Lidd, CEO of Interval Research Corp., a research and development group in Menlo Park, Calif., nobody really knows what the network is. But it's important for PC makers to be involved, he warns. "Getting out there and getting wet is the only way to find out."

Which is why computer makers are getting into the Information Highway frenzy. They are forming partnerships with cable companies and phone companies to develop set-top boxes and smart phones that will work with their own PCs. The theory here is if other devices do make it into the home, so be it. Just make sure they are compatible with an omnipotent, controlling PC.

That's the vision of Satish Gupta, director of personal systems for IBM. He sees the desktop PC as the hub, or se-

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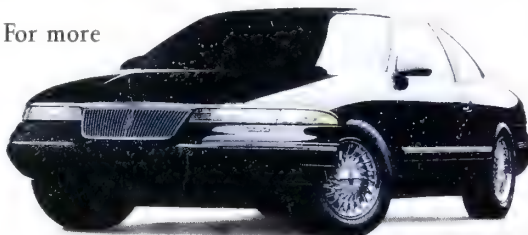
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er, of an "information structure." This structure will include the interactive cable-TV system, wireless phones, and a variety of different size PCs scattered about the house, car, and office, all connected via wireless networks.

While this home computer stores, controls, and processes all the many bits of data floating about the structure, such as household budgets, e-mail, and movies

downloaded from the cable system, each family member will be checking in regularly with his or her own, very personal, appliance. "I think in the next two or three years, we can implement a small handheld personal device that uses speech and handwriting recognition and can communicate both voice and data," Gupta says. Such a device will allow its owner to be constantly in touch with

every other component of his or her personal network.

Compaq's top strategist has a similar grand vision. Stearns sees a server-type PC built into the house, maybe next to the central heating or air-conditioning unit. It would be linked to what Stearns likes to call "lifestyle devices"—game machines, handheld computers, smart phones. This concept is still sketchy.

WATCH OUT—THOSE GAME BOYS ARE GROWING UP

As U.S. PC makers fix their sights on the Information Superhighway, Nintendo President Hiroshi Yamauchi has reason to fret. Computers with video-game graphics and sound suggest a looming battle for the living rooms of America.

But Yamauchi isn't quaking: His engineers are working on a 64-bit game machine with powers that will rival the most advanced PCs—in 1995. "Two years from now," he declares, "there won't be anyone else in our league."

That's when the Information Superhighway will start to reach U.S.

billion this year, predicts Salomon Brothers Inc. That's more than total movie box-office sales, and nearly as large as the U.S. music industry. "These companies understand pricing, product placement, and good software," says analyst Joseph Osha of Baring Securities (Japan) Ltd. "Long term, they're not going to lose control."

JOYSTICK CLUB. To make sure, game-machine makers must figure out how to get on the Information Superhighway—over which new, interactive, multiplayer games will be played. That's why Nintendo has tapped Silicon

five years, says Sega Managing Director Hideki Sato, "the barriers between game machines, cable converters, and PCs are going to disappear."

Nintendo and Sega both say they don't want to go too far toward computers—and wind up with products that are too expensive or complex. They are carefully watching what happens at Matsushita Electric Industrial Co., which has backed startup 3DO Co. and is selling a 3DO "multiplayer." In addition to running CD-based games with stunning graphics, the multiplayer is intended to double as a cable-TV controller and gateway to on-line service. But at a steep \$700—and with few game titles—many analysts are skeptical about its chances this Christmas. "There isn't nearly enough software to launch it," says Baring's Osha.

That's not to say Nintendo and Sega aren't vulnerable. Both have been hurt by the high yen and price wars. Nintendo's pretax profits will plunge 26% to about \$1.1 billion—the first decline in 10 years. And Sega expects revenue to grow just 6%, after a 62% jump in fiscal 1992. Share prices for both companies have tanked. "The market is saying that the fast-growth period is over," says Yoshihide Kondo, senior analyst at Daiwa Securities Co. in Tokyo. Even so, competition is heating up. Atari has its new \$200, 64-bit Jaguar. Both NEC and Fujitsu sell CD-based game players, and Sony plans a game machine, too.

Still, the top game makers have the same edge in electronic entertainment as PC makers can claim in information technology: They're already there. At Yoshio Ikeda, a 20-year-old who hangs around the game centers near Shibuya station. "Sony knows a lot about TVs and VCRs," he says, as Rail Chase, the game he's playing, flashes requests for an additional coin. "But this," he says, "is the world of Sega. And the home already belongs to Nintendo."

By Neil Gross in Tokyo, with Richard Brandt in San Francisco



homes. And Nintendo Co. counts on Americans to choose electronic kick-boxing over on-line edification every time. "Who's in the business of providing entertainment?" says Peter Main, Nintendo of America's vice-president for marketing. "Not Microsoft or IBM."

A Nintendo or Sega Enterprises Ltd. machine may not be able to handle complex software or services, but when it comes to interactive entertainment, they're light-years ahead. Since 1985, Nintendo and Sega have placed more than 65 million game players in U.S. homes. And they've spawned a software market that will exceed \$7

Graphics Inc. for a 64-bit chip to give Nintendo machines the smarts to navigate 500 channels and manage shopping, banking, and other transactions. "You'll be purchasing a great game machine," says Yamauchi. "But the more you use it, the more remarkable things you'll learn how to do."

Sega is taking the same approach. Working with Hitachi Ltd., it is preparing a next-generation machine for 1995. Meanwhile, the company is testing new features such as the ability to download new games from the Sega Channel, a joint venture with Time Warner and Tele-Communications. Within

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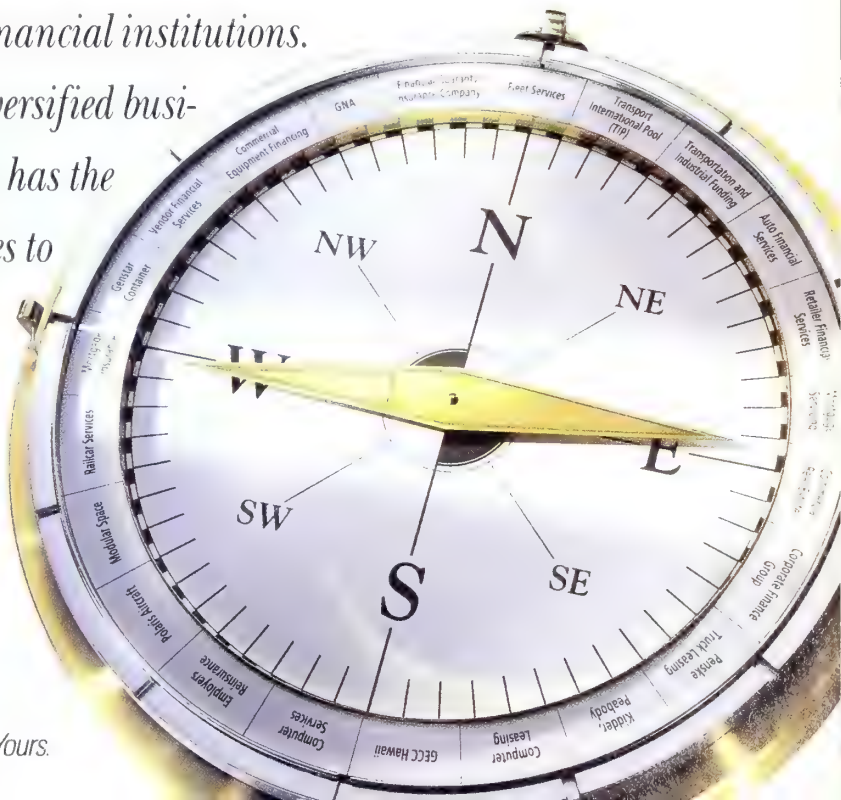
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Stearns admits. But, he says, "we are thinking very hard about this and can move very rapidly when the time comes."

A big question mark hovers over Apple. Sculley once championed an aggressive move into the digital future. But Apple has fallen on hard times this year, a victim of high prices and IBM-compatible PCs that have evolved into machines capable of doing many of the same things as the Mac.

Other PC companies may also find the passage into the age of the information appliance a painful one. Many smaller players lack the research and development skills to evolve their product lines. And they may find it difficult to get shelf space in the consumer-electronics stores that are likely to be key marketing outlets.

And then there are the companies that aren't convinced that the PC will even be the information appliance. Dell Computer Corp., for example, gets 20% of its revenues from consumers, but CEO Michael Dell says he has no plans to build hybrid PC/TVs for the home of the future. "Yes, you could make a PC that also controls the TV, but at those prices why would you want to?" he says.

"PET ROCK PHENOMENON." The information appliance is a concept that not everybody gets, concedes Jef Raskin, who coined the term back in 1978. And even if you get it, it's really hard to translate it into a product. After helping conceive the original Macintosh, Raskin left Apple in 1982 to launch his own company, Information Appliance Inc. Its most notable product was the Canon Cat, a word processor that used written natural language commands like "undo." The processor never sold well, and the company folded in 1989. "What I've been trying to do for a long time is make devices that are easy to use for dealing with information," says Raskin, now a consultant.

Since he's been burned once, Raskin is not willing to bet the farm on what that device will be. "One can never rule out the Pet Rock phenomenon. You never know what new thing will come up," he says. But at least for now, Raskin thinks the PC is the most obvious candidate for an information appliance. Beyond that, perhaps PC makers should stay tuned to *Star Trek: The Next Generation* to get an inkling.

By Catherine Arnst, with Paul M. Eng, in New York, Richard Brandt in San Francisco, Peter Burrows in Dallas, and bureau reports

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WHAT APPLE LEARNED FROM THE NEWTON

It's never easy being a technology pioneer. Time and again, the companies that are first get burned. A new gizmo looks terrific in the lab and seems a sure winner at the product launch. But in the market—thud.

Nobody knows this better than Apple Computer Inc. A few years back, John Sculley, then Chairman, identified the coming convergence of computers, communications, and mass media as a huge opportunity. Companies that had the right goods and services for the Information Superhighway and enhanced wireless systems, said Sculley, would be the kingpins of high tech by decade's end—while the conventional personal-computer business would devolve into a boring commodity operation.

Apple's first such product, a personal digital assistant called Newton MessagePad, has suffered more slings and arrows than perhaps any other pioneering computer. Instead of accolades, Newton became a running joke on no less visible a platform than Gary Trudeau's *Doonesbury* comic strip. The main reason: Its much-vaunted ability to read handwriting is far from foolproof. And the machine lacked the anytime/anywhere communications promised by Sculley.

TUNED IN. But Sculley's departure under pressure and Newton's reception don't mean Apple is giving up on the concept. In fact, Newtons are selling. Its communications are being improved, and a new model due out early next year will have a larger screen. Apple also is working on other products for the new digital world. It has come up with a Mac TV that marries a multimedia Mac with a TV receiver.

Then there's software it's devising for the interactive-TV systems planned by cable-TV and phone companies. Called EZTV, the program provides on-screen navigation for the myriad programs and services that are promised. And on the user-friendly front, Apple is improving its Caspar voice-recognition technology, now standard on some

Macintoshes. Conceivably, using a Mac TV with Caspar, you could bark "Vanna" from the couch and arrive at the desired station.

In the meantime, Sculley's prediction about the fun leaving the PC business seems to be coming true—at least for Apple. Macintosh sales stalled last spring, when the product line suddenly appeared overpriced and technically

underwhelming in comparison with IBM-compatible PCs. Although Mac sales have begun rising thanks to a series of deep price cuts, profits remain depressed, and the future of the Mac is now clouded.

Next year will be critical: Macs based on the hot new IBM-Motorola PowerPC chip are due out. Their greater power could make more multimedia capabilities standard. But if they don't restore the Mac's edge over the IBM PC crowd, Apple will con-



SPINDLER: TAKING FEWER CHANCES?

tinue to feel severe pressure.

Given all that, it wouldn't be a surprise if Sculley's successor, Michael Spindler, deemphasized such pioneering efforts as Newton. Spindler isn't talking, but Apple's rivals already sense drift. "Two years ago, I would have named Apple as one of our main competitors in this area, but now I'm afraid not," says Robert J. Frankenberg, general manager of Hewlett-Packard Co.'s Personal Information Products Group, which launched one of the company's forays into information appliances, the 100LX pocket PC.

While Newton so far has not met expectations, it's not the first time Apple has been down this road. The Macintosh itself was not a hit when it was introduced in 1984. Not until new software made it a tool for the emerging desktop publishing industry did the Mac become a winner, finally establishing Apple's reputation for easy-to-use technology. Apple can only hope that its new digital-age products meet the same fate.

By Bart Ziegler in New York, with Kathy Rebello in San Francisco

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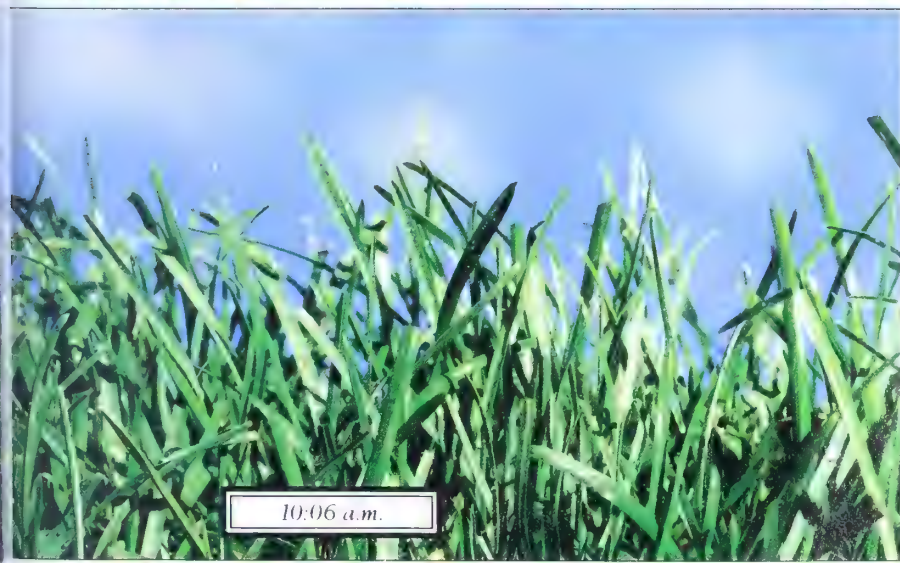
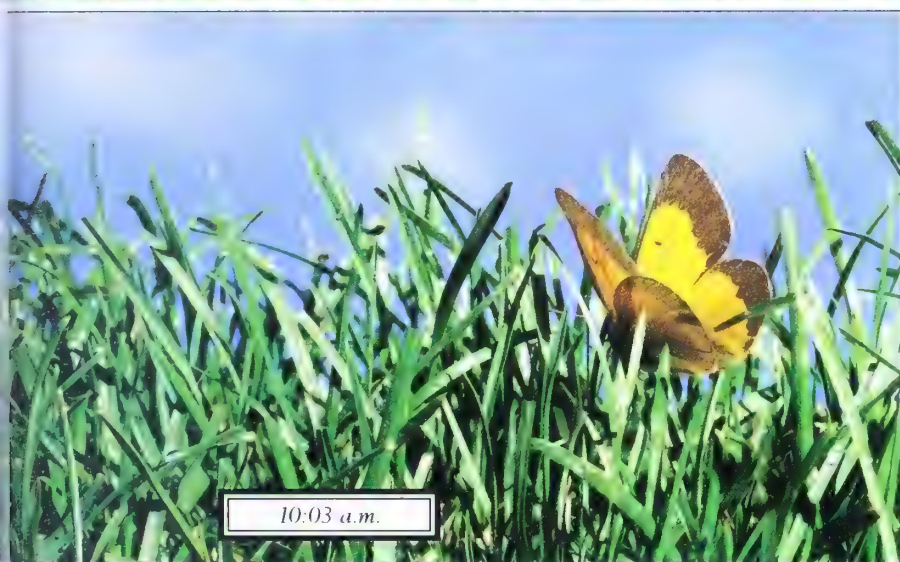
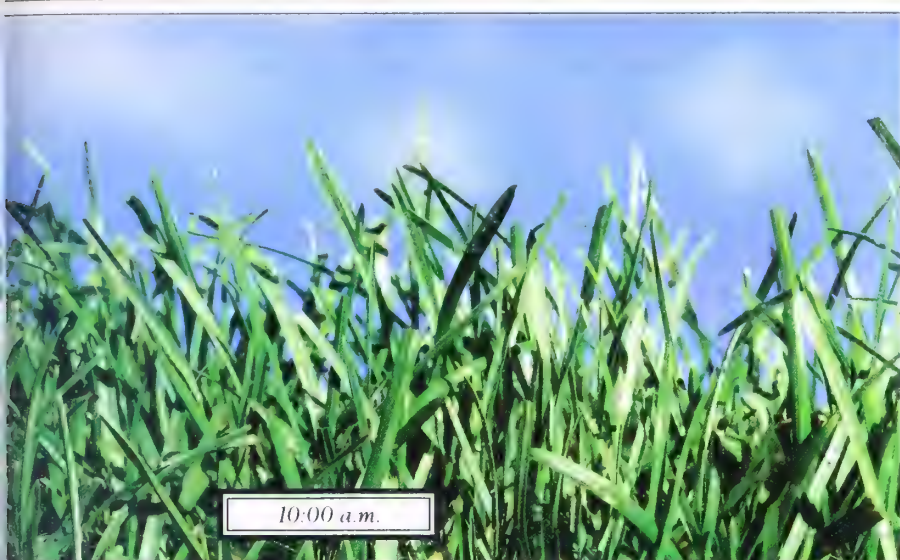
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WHAT'S BEHIND FIDELITY'S RIVETING RESULTS

Sheer size, exhaustive research, and shrewd picks have sparked its mutual-fund winning streak

If a mutual-fund company runs enough funds, the law of averages pretty much dictates that at any one time, a few of them will be delivering knock-'em-dead results, while others will scrape bottom. That way, the company always has some hot funds to promote. Over the years, no one has worked this strategy as well as Fidelity Investments, with \$247 billion in assets and 210 funds, the nation's largest fund manager.

But this year, Fidelity's equity funds are making mincemeat of the law of averages. Fidelity's growth-fund group, the mainstream equity funds that include the \$30.6 billion flagship Magellan Fund, is on a remarkable hot streak. These 21 funds account for 60% of the total equity assets at Fidelity. All but one of them is beating both the Standard & Poor's 500-stock index and growth-fund average (table). The 21 have an average total return (appreciation plus reinvestment of dividends and capital gains) of an eye-popping 17.7% for the year through Nov. 8.

And it's not only the equity fund group that's shining. All but one of the conservative growth-and-income funds—which include the multibillion-dollar Puritan, Growth & Income, Equity-Income, and Balanced funds—are up at least 15% as well. Says John Rekenthaler, editor of *Morningstar Mutual Funds*, a publication that tracks mutual-fund performance: "Any way you cut the numbers, Fidelity is doing spectacularly."

Perhaps the most spectacular performer is the Magellan Fund, the largest equity fund in the business, which is outpacing the S&P 500 by nearly 16 percentage points. The last time Magellan ran that far ahead of the market was in 1983, when former portfolio manager Peter Lynch had a mere \$1.6 billion to run. Jeffrey Vinik, who took

over the fund in mid-1992 from Lynch's successor, Morris J. Smith, built this year's 23.5% total return from heavy weightings in technology, natural gas, cyclical, and foreign stocks. Now his major holdings are Motorola, Texas Instruments, and Intel in technology, Burlington Resources in natural gas, and L. M. Ericsson, the Swedish telecommunications-equipment manufacturer. More than a third of the fund is committed to technology and energy stocks—which could deflate his results if the recent pullback in technology turns into a rout. Says Vinik: "I might change my mind tomorrow, but I see these as being great areas for strong growth in the 1990s."

This year's numbers are especially sweet for Vinik, who trailed the market

in his early months on the job. It has also earned him kudos from competitors. Vinik, jokes James P. Craig, portfolio manager of the rival \$9 billion Jaws Fund, "irritates the hell out me." He adds: "Few people understand just how good a job he's really done."

STREET CLOUT. Vinik, who has a contrarian streak about him, built his performance with some bold and controversial moves. In 1992, he bailed out of consumer stocks well before the crowd soured on them. Early this year, he, like many U.S. investors, turned to foreign stocks to boost performance, and, at the peak, had 20% of the fund overseas. But now, as the crowd continues to rush abroad, Vinik has slashed his foreign exposure in half.

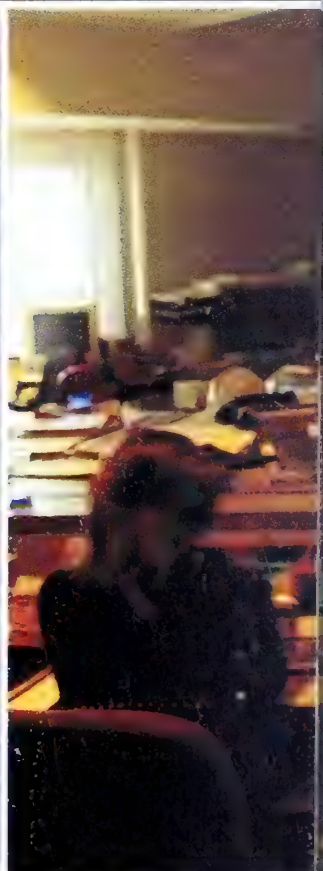
Many other big winners in the Fidelity

FIDELITY'S GROWTH FUNDS ARE ON A ROLL

Fidelity fund	Total return* % year to date	Net assets \$ Millions
CAPITAL APPRECIATION	27.3	1,300
MAGELLAN	23.5	30,600
BLUE CHIP GROWTH	22.1	1,000
DESTINY II	22.0	1,200
DESTINY I	21.9	3,000
NEW MILLENNIUM	21.4	250
CONTRAFUND	20.1	5,800
VALUE	19.8	1,600
ADVISOR STRATEGIC OPPORTUNITY INITIAL	19.4	287
ADVISOR STRATEGIC OPPORTUNITY	18.9	20
ADVISOR GROWTH OPPORTUNITIES	18.3	2,000
EMERGING GROWTH	18.0	653
TREND	17.9	1,400
RETIREMENT GROWTH	17.5	2,700
LOW-PRICED STOCK	15.0	2,000
GROWTH COMPANY	13.2	2,500
ADVISOR INST. EQUITY GROWTH	12.9	286
ADVISOR EQUITY GROWTH	12.2	355
DISCIPLINED EQUITY	12.0	778
STOCK SELECTOR	11.2	577
OTC	6.1	1,300
S&P 500	7.9	
AVERAGE GROWTH FUND	9.0	

*Appreciation plus reinvestment of dividends and capital gains, Jan. 1, 1993, through Nov. 8, 1993

DATA: MORNINGSTAR INC.



THE TOP FUNDS' TOP STOCKS

The five largest holdings of the five Fidelity growth funds that have the best year-to-date total returns:*

CAPITAL APPRECIATION

- ▶ Safra Republic Holdings
- ▶ Brierley Investments
- ▶ Lonrho
- ▶ ConAgra
- ▶ Gulf States Utilities

AS OF SEPT. 30, 1993

MAGELLAN

- ▶ Motorola
- ▶ Texas Instruments
- ▶ L.M. Ericsson
- ▶ Burlington Resources
- ▶ Intel

BLUE CHIP GROWTH

- ▶ Lowe's
- ▶ L.M. Ericsson
- ▶ Texas Instruments
- ▶ Intel
- ▶ Mirage Resorts

DATA: FIDELITY INVESTMENTS

DESTINY II

- ▶ Fannie Mae
- ▶ Compaq
- ▶ Citicorp
- ▶ Chrysler
- ▶ HCA-Hospital Corp.

NEW MILLENNIUM

- ▶ Herman Miller
- ▶ Teradyne
- ▶ Promus
- ▶ Trinity Industries
- ▶ Diebold

growth group made their money from technology, energy, and foreign stocks, but they didn't mimic Magellan's moves. The \$1 billion Capital Appreciation Fund, which beat Magellan by 3.7 percentage points, has nearly half its portfolio abroad, and three of the five largest holdings are U.S. stocks (table). The Destiny I and tiny II funds, run by George Vanderheiden, have about 22% of their assets in special stocks such as Fannie Mae and Corp—onetime favorites of Peter Lynch. The New Millennium Fund, up 21.6%, had 10% of its assets in technology early in the year but has cut that back to 18%. Manager Neal Miller's top stocks now include office-furniture manufacturer Herman Miller and casino operator Promus.

What all these funds have in common is a formidable edge that comes both from Fidelity's size and its unique corporate culture, which encourages cooperation yet allows fund managers to be "stars" as well. "We think we have an information edge," says William Hayes, director of Fidelity's equity funds. That's because Fidelity, as the largest fund company and one of the largest institutional investors, has access to top management at nearly every public company. Fidelity's clout on Wall Street also assures that its fund managers get first crack at hot initial public offerings and are among the first to get calls when influential analysts change their recommendations. Then there's the army of

308 managers and analysts—naturally, the largest in the business.

In the unusual system established by Lynch and Fidelity Chairman Edward C. Johnson III, Fidelity recruits smart, aggressive college graduates who don't usually know much about stocks. Katherine Collins, for example, joined three years ago straight from Wellesley College, where she majored in Japanese studies. "I didn't know any accounting when I got here, but they get you up and running pretty quick-

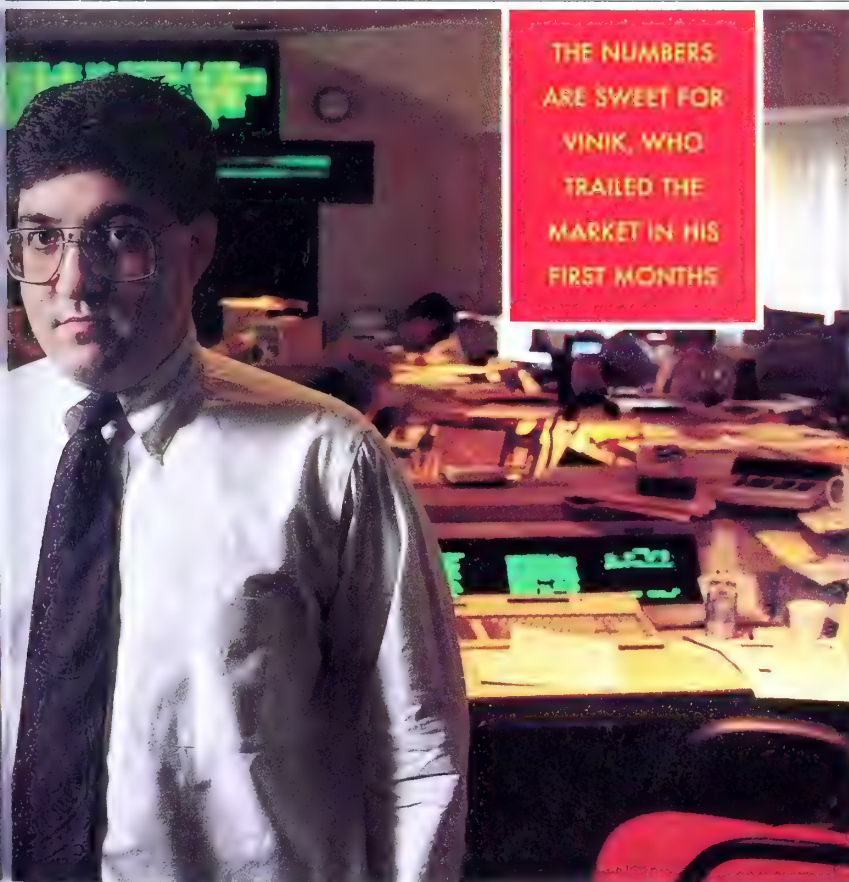
ly," she says. After working for two years with two experienced managers, Collins was put in charge of the Select Construction & Housing Portfolio, one of Fidelity's sector funds. These funds, because they invest in one industry or market sector, can be volatile, but aspiring managers view them as excellent training grounds. Successful sector-fund managers move on to manage larger, diversified funds. Michael Gordon, who runs Blue Chip Growth, cut his teeth on the Select Biotechnology Portfolio in the early 1990s, when that fund—and the entire industry—was red-hot.

UP-AND-COMERS. Instead of pitting aggressive young portfolio managers against one another, Fidelity executives encourage them to work as a team. Annual bonuses depend on how well their fund performs against non-Fidelity competitors, how successfully they convince other Fidelity managers to invest in their stock picks, and the relative performance of similar Fidelity funds as a group. Fidelity managers often switch funds every few years, and with new funds opening up regularly, there's plenty of opportunity for up-and-comers to show their stuff. "Cooperation is key," says Vanderheiden, who succeeded Lynch as "group leader" of Fidelity's growth funds.

Still, the Fidelity system has been in place for years, and the growth funds haven't had this sort of success. So what gives? Vanderheiden suspects the behavior of the stock market this year played right to the group's strengths. What defines the best performers in 1993's market is positive earnings surprises. Since Fidelity's huge research staff covers nearly every public company, it has been able to uncover even the most obscure companies where earnings are improving well before the Street does.

As well as Fidelity has done this year, portfolio managers have been trying to lower investor expectations. "I'd stake my career on the fact that this will not be repeated," says Vinik. Nonetheless, hordes of investors are betting that Vinik is dead wrong.

By Geoffrey Smith in Boston



WILL WALL STREET SURRENDER ITS 'PIECES OF EIGHT'?

Sure, share trading in 12.5¢ increments is antiquated—but so lucrative

It's about as fundamental to Wall Street as the *faux* Greek pillars fronting the New York Stock Exchange. For two centuries, U.S. stock markets have traded shares in increments of an eighth of a dollar: 12.5¢. The "fractional pricing" system has remained intact even as global markets have moved to trading securities at whatever price they command—no matter how tiny the increment. Critics say Wall Street firms like the system because it artificially inflates spreads between bid and ask prices—thus boosting the Street's profits.

But fractional pricing may finally be on the way out. Slowly, pressure is building in Washington to convert share pricing to a "decimal" system that uses dollars and cents. By narrowing spreads, the move could save investors millions of dollars a year. "The current system reflects inefficiencies that are costing investors a whole lot of money," says Harold S. Bradley, head trader for Twentieth Century fund group in Kansas City, Mo.

Some government officials apparently agree. At a hearing last spring, Representative Edward J. Markey (D-Mass.), chairman of the House subcommittee on telecommunications and finance, said he would consider requiring decimal pricing in possible legislation next year. In October, the Securities & Exchange Commission sought comments on it. And the agency's big *Market 2000* study, due in early 1994, is expected to deal with the issue. "I think it is inevitable in the long run," says SEC Commissioner Richard Y. Roberts.

In the short run, however, securities firms are expected to challenge any reforms as hard as they fought moves to end fixed brokerage commissions in the 1970s. Indeed, fractional pricing is a vestige of the fixed-commission concept. "Decimal pricing would affect [Wall

Street's] profitability. Spreads would close," says John L. Watson III, president of the Security Traders Assn.

Legend traces the practice to the ancient Spanish custom of cutting the peseta into "pieces of eight." Whatever its origins, there's no disputing that brokers and dealers are huge beneficiaries of the current system. A dealer who "makes a market" in General Motors

Ricker figures that when an investor trades a Standard & Poor's 500 basket of stocks, the broker's commission averages 2¢ or 3¢ a share. But the spread adds an additional dime a share, he estimates. A study by Wayne Wagner, partner at Los Angeles researcher Plexis Group, put the spread costs for institutional investors at 7¢ a share. If decimal trading shaves off only a penny, investors would save \$1 billion a year, says Junius W. Peake, a finance professor at the University of Northern Colorado.

SPREAD SHRINK. Decimal trading could also abolish a practice abhorred by many regulators—payments by nonexchange dealers to brokers to get them to execute orders away from exchange floors. The SEC is worried that brokers seek the payments, usually a penny or two a share, will ignore their duty to get the best price for customers. The SEC solicited comments on decimal pricing as part of its study of order-flow payments, which are linked to 15% of all trading. Some SEC officials think a decimal system would shrink spreads so much that dealers couldn't pay for orders and still make a profit.

While acknowledging some benefits, Wall Street sees huge downside. Industry executives say market makers and exchange specialists might abandon infrequently traded stocks, reducing liquidity. And fierce rivalry in the pricing of stocks could squeeze out smaller firms that need a minimum 12.5¢ spread to survive. What's more, a change, over, which would involve converting complex computer systems, would be expensive and time-consuming. In testimony before the Markey subcommittee, New York Stock

Exchange Chairman William H. Donaldson argued that "to change something just to change it is probably wasteful."

So, despite growing interest in Washington, a quick change isn't likely. *Market 2000* will probably recommend that Wall Street take a hard look at decimal pricing. Says Commissioner Mary L. Schapiro: "I can't imagine will force it on the industry." Thus, the driving force for change will likely be large investors, who stand to reap a windfall. If they start wielding their clout, Wall Street may have no choice but to bury its ancient pricing system into the 20th century.

By Michael Schroeder in Washington

THE DEBATE OVER DECIMAL STOCK PRICING

PROS

- Spreads would narrow, cutting trading costs for investors
- Market makers would see a pickup in trading volume and profits
- Market liquidity would improve by making it cheaper to get in and out of positions
- U.S. markets would be brought in line with other global markets
- Questionable practice of paying for order flow would be eliminated

CONS

- Changing existing system could be prohibitively expensive
- Narrower spreads would cut profits of market makers and specialists
- Narrower spreads would reduce market-maker support of thinly traded stocks
- Bids would get squeezed out by any higher bid of as little as 1¢
- Healthy competition in order-flow payments would not be significantly affected

DATA: BUSINESS WEEK

Corp., or offers to buy and sell the stock, might buy at, say, \$48 a share and sell at \$48.125. Under a decimal system, trades could take place between those prices, say, \$48.07, slicing pennies per share off the dealer's gross profits. Proponents of the decimal system believe that while firms' margins may suffer, they could offset that with increased volume.

Just how much money the change would save investors, who trade 100 billion shares a year, is the subject of some debate. Financial consultant Jeffrey P.

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IT LOOKS LIKE A STOCK BUT DEDUCTS LIKE A BOND

A new preferred is cheaper to issue and doesn't hurt credit. Too good to be true? Only the IRS knows.

Two big U.S. energy producers think they may have struck a tax-saving gusher of sorts in the Turks and Caicos Islands—yes, the Turks and Caicos Islands. But some Wall Streeters believe the Internal Revenue Service might eventually cap their tropical tax loophole.

For years, this spine-shaped island cluster 90 miles due north of Haiti was best known for its Club Med and scuba diving. Lately, however, the islands have gained prominence on Wall Street as the wellspring of two preferred stock offerings that appear to give the issuers, Texaco Inc. and Enron Corp., the best of two worlds. Normally, companies can deduct the interest costs of bond offerings but not the dividends paid on stock. Called MIPS (monthly income preferred shares), the new \$25-a-share offerings—priced on Oct. 27 by Texaco and on Nov. 4 by Enron—appear to enable the issuers to deduct the “dividends” on the preferred shares as if they were interest. Rating agencies are treating the shares much like equity. A comparable debt sale might endanger the issuers’ credit standing.

LONG ARM. Although similar transactions have been done for European companies and financial institutions, Texaco’s \$600 million MIPS and Enron’s \$200 million issue represent the first such offerings by U.S. corporations, according to Goldman, Sachs & Co. Vice-President Christopher Hogg. Although Goldman, which sells mostly to institutions and rich individuals, led the deals, they targeted mainly retail investors.

Sound too good to be true? Maybe it is. A few Wall Streeters privately wonder whether Turks and Caicos are far enough away to enable the deals to escape the long arm of the IRS. Asked for comment, the IRS maintained its usual silence on specific tax situations. An IRS spokesman says the agency has not provided “general guidance” on tax treatment of such offerings. But a Big Six accounting firm tax partner says that the IRS, under pressure to produce revenue,

has lately been “very aggressive” in scrutinizing large offshore tax-driven transactions.

At the moment, a number of other companies are “waiting in the wings,” as a Goldman source put it, to get their issues to market. Barring an unfavorable IRS ruling, investment bankers figure that some \$10 billion worth of the new instrument could hit the market over the next 12 months.

These transactions take advantage of

preferred shareholders. Since Texaco “borrowed” the money from Texaco Capital LLC, its offshore subsidiary, it intends to deduct the interest expense just as it would on an ordinary bank loan. By organizing these subsidiaries as partnerships, the parents avoid U.S. withholding taxes on the interest payments. Assuming that Texaco’s 24% first-half-’93 effective tax rate remains constant for the life of the loan, the company’s after-tax interest cost would be only about 5.1%.

“ALCHEMY.” Thanks to the long maturity, coupon-suspension rights, and other features, rating agencies regard the exotic new offerings as having “equity characteristics” that therefore pose no threat to the issuers’ ratings. Accordingly, Standard & Poor’s Corp. and Moody’s Investors Service reaffirmed their existing single-A ratings on Texaco’s senior and preferred debt and their triple-B ratings on Enron’s senior and preferred.

Regarding the tax play, Moody’s Senior Vice-President Harold Goldberg quips: “It’s a form of alchemy—one of the world’s oldest professions,” adding: “If it’s tax-effective, it’s an attractive way of building capital.” Solomon B. Samuels, Managing Director at Salomon Smith Barney, says: “Our presumption is that [the deals] are going to work,” adding that the underwriters feel they “will meet the criteria of the IRS.”

Texaco and Enron seem quite pleased with their apparent coup. Enron Executive Vice-President Edmund P. Segal says that because the Houston-based company expects its earnings to grow faster than the 8% coupon on the issue, the deal is a winner regardless of the tax benefits. A Texaco financial officer says the company wanted to sell preferred stock, and “when this structure was introduced to us, it looked like something we should analyze.” As for the IRS, he says: “Suffice it to say, we’re comfortable with the structure and don’t consider it aggressive at all.” The regulators may look at it differently.

By Phillip L. Zweig in New York

A PREFERRED-STOCK BONANZA?

Why companies are rushing to set up Turks and Caicos Islands subsidiaries to issue a new kind of security that resembles a stock but has the advantages of a bond:

- ✦ Companies can deduct its “dividends” from their taxes
- ✦ Ratings agencies regard it as close to equity
- ✦ It doesn’t hurt the balance sheet

There’s only one question:



DATA: BUSINESS WEEK

a recently enacted provision in the corporate statutes in Turks and Caicos. According to the Goldman source, the move was engineered by Sullivan & Cromwell, Goldman’s outside law firm, which also issued a tax opinion supporting the transaction.

Under the Turks and Caicos law, Texaco and Enron established subsidiaries that sold preferred shares to investors and lent the proceeds to the parent companies. In the Texaco transaction, the terms of the loan were 50 years (renewable for an additional 50 years) at 6%, the same rate of interest paid to

Wall Street sources see some \$10 billion worth hitting the market over the next year

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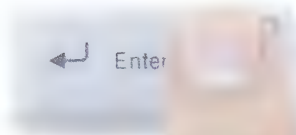
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Finance

MARKETS

SEOUL SURGING

Korean stocks are soaring, so foreign investors rush in

At closing time on Nov. 9, Seoul's stock market, Song Eun-Hee left her broker's office in the financial district, Yoido, with a grin on her face. "The market seems to be on the right track," says Song, 50, a housewife who has just returned to the market to try to recoup the \$200,000 she lost from 1989 to 1992. Song has a lot to smile about: South Korea's composite stock index is hovering near 780.20, its high for the last three years.

The turnaround is remarkable. Most of the gain has occurred since August 1992, when investors were at their gloomiest. Korea's export-led economy was slowing, while government and business leaders were preoccupied with an upcoming presidential election. Heavy regulation still limited Korean companies' ability to raise money, dampening investors' mood even further.

But now, says Kim Young-Jun, analyst at Dongsuh Securities Co., "we've probably seen [the light at] the end of the tunnel." The new government of Kim Young-Sam has paused in its drive against bureaucratic corruption to institute long-delayed reforms of the economy. In early November, Kim lifted nearly all restrictions on technology imports, investments abroad, and overseas issues of securities by Korean corporations. The government has also deregulated interest rates, letting the market decide the cost of money.

COMING UP ROSES. Now, the betting is that Korea's conglomerates, the *chaebol*, will quickly raise low-cost funds overseas to pump capital into autos, semiconductors, and machinery. President Kim is hoping that a surge in investment by the *chaebol* will lift economic growth above 6% in 1994—up from 4% or so expected for 1993. As the market anticipates this growth, share prices of big exporters such as Samsung Electronics and Hyundai Motor Co. have climbed steadily. Not even recent speculation about an invasion from North Korea has stemmed the optimism.

Koreans aren't the only ones feeling happy. Foreign investors, led by U.S. companies, have embraced Korean equities as part of their overall infatuation

th Asian stocks. Morgan Stanley & Co., in particular has been preaching to American institutional investors that their future lies in Asia. The firm's pronouncements helped push the Hong Kong, Indonesian, Malaysian, and Thai markets to new heights in October. Now, the perception among U.S. investors, says senior analyst Stephen Arvin at Jardine Fleming Holdings Ltd., is that the Korean and Taiwanese markets are next in line for a surge. Of the \$4.1 billion invested directly this year by foreigners in the Korean stock exchange, Americans account for \$1.4 billion, more than 10 times the amount they chipped in last year. U.S. pension funds are among the most active investors, says Suh Han-Bong, director of Inshin Securities Co., which is setting up a new closed-end fund for American investors in early 1994. Meanwhile, the Korea Fund, a closed-end fund that has traded on the New York Stock Exchange since 1984, is up about 83% since its low point in August of last year.

OTHER CEILING? What could help the Korean market even more is further relaxation of the government's limit on how much foreigners can invest. Korea, which approved direct foreign investment in stocks only last year, has kept the ceilings on foreign holdings to about 15% of manufacturing equities and 10% of financial stocks. Suh expects regulators to revise the ceiling upward, to 25%, in the next few months. As a result, he sees an additional \$8 billion flowing from overseas in 1994.

But what might hurt the Korean market is a gold-rush mentality by domestic and foreign investors that could drive equity prices too high and set the stage for a crash. Still, there still seems to be room left for growth in the stock exchange, which has had total trades around 16 times earnings. And the overall market remains about 25% below its peak of 1989, when Korean equities, much like Japanese stocks, were clearly overpriced. But deregulation means that foreigners are free not only to enter but also to jump out at the first sign of trouble. Individual Korean investors such as Song, the housewife who got so badly burned in the last bear market, may have a lot readier to cut their losses fast than time around. Those are the risks. For now, investors inside and outside Korea are focused on the rewards.

By Laxmi Nakarmi in Seoul

ASIA'S MARKET UNCES BACK



There's Still Time To Cut Your 1993 Tax Bill

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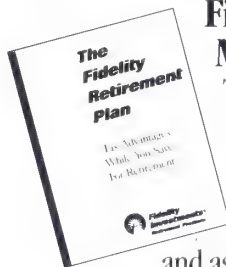
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BY GENE G. MARCIAL

SPOTTING STOCKS THAT STILL HAVE SOME SPUNK IN 'EM

Investment manager Lydia Miller was high on U.S. stocks earlier in the year when many of her peers went the other way. Now she has cooled somewhat on the U.S. because she's convinced that most of the big winners have peaked. Most, she says, but not all. Miller, who is director of SBC Portfolio Management International—Swiss Bank Corp.'s investment arm—has accumulated a big position in three favorites for her global equity portfolio: Timberland, Zero Corp., and NationsBank.

Miller has increased the portfolio's foreign content to 50% from 35%, but these three U.S. picks, she says, have what she looks for in a stock: high growth prospects, still-unrecognized value, strong market franchises, and low-cost operations.

Miller's track record is nothing to sell short. The Swiss Bank Pension & Profit Sharing Plan she manages has gained 40% since Oct. 1, 1991 vs. 25% for the S&P 500-stock index. Miller also co-manages the SBC World Growth Fund, just formed last year. It gained 31.6% vs. Morgan Stanley Capital International index' 23.4% rise.

RUGGED SALES. Timberland, known for sturdy boat shoes, waterproof hiking boots, and outdoor garments, has been one of the market's big winners, climbing from 30 a share in early July to 85 on Nov. 10. Yet, Miller is still gung-ho. Timberland sales are on the rise, and management has taken more control of inventories to cut costs and fatten profit margins, says Miller.

Timberland's earnings, she notes, have started to break out. For 1993, she expects \$2.20 a share, up from \$1.18 last year. For 1994, she sees \$3 to \$3.50. The Swartz family, headed by Timberland Chairman Sidney Swartz, owns 70% of the stock.

Miller thinks Zero will be another Timberland. It has been seesawing between 12 and 15, but she sees it rising soon, based on expectations of a 30% annual earnings growth over the next three years. This maker of casings and cooling equipment for electronics equipment and cargo-carrying systems for airlines earned 74¢ a share in the year ended Mar. 31. "Zero is the kind of stock that will play out well even if the



PORTFOLIO MANAGER MILLER: MOST OF THE BIG WINNERS IN THE MARKET HAVE PEAKED

market tops out," she says, because it has a good dividends, little debt, and \$30 million in its till.

NationsBank, the country's fourth-largest banking company, with assets of \$140 billion and more than 1,700 banks in nine states, has been on the ropes. Shares have slumped from 58 early in the year to 46 on Nov. 10. But Miller believes it will be a big winner as it continues to capture market share through acquisitions. Noting how underpriced NationsBank is, she figures it will earn \$5 this year and \$6.05 in 1994. "It's an earnings-growth play," insists Miller, "rather than just another bank stock."

A MEDICAL PLAY GAINS ALTITUDE

Know anything about aeromedics? Think of ambulances in the sky or flying emergency-care clinics. That's what Air Methods provides via its 30 helicopters and 12 airplanes—equipped with sophisticated emergency-care equipment and medical personnel—to 54 hospitals in 14 states. Hospitals use Air Method's services to transport patients from an accident scene or other hospitals. Its stock soared, from 3¢ a share in early May to 12 on Nov. 10. Does that mean its flight is over?

"Not by a long shot," says investment adviser John Westergaard, who sees a second upswing coming. Demand for aeromedic services should surge in the years ahead, he predicts. This infant industry, he adds, should grow to \$1.2 billion by the year 2000,

from the current \$255 million. Air Methods is the largest in the business.

Westergaard projects sales will jump to \$40 million in 1994 from 1993's \$25 million and last year's \$12.7 million. "If there is anything close to a piece of cake to look forward to over the next year, it's the prospect of this stock trading north of 20 on its way to 35 mid-1995," says Westergaard.

Also high on the stock is John Turo, director of research at Rodman & Renshaw. Turo notes that Air Methods has signed a joint-venture pact with Medica Movil, Mexico's largest provider of ambulance services. Air Methods will provide life-support air-transport services, complementing Medica's ground ambulance system. "Mexico could become a large market for Air Methods—especially if NAFTA gets approved," says Turo.

Investment adviser Andrew Lang, who has been buying up shares, notes that Air Methods has been in business for 13 years and "not one of its customers ever failed to renew a contract." He claims buying Air Methods now is like buying McDonald's when only hundreds of burgers had been sold.

PRETTY PICTURE IN CHINA?

In the red for the past two years, Concord Camera may now be in focus. Not only is the single-use—so called disposable—camera becoming a hot item, but after manufacturing such cameras in China for years, it's finally breaking into that market. To opening to China may be the breakthrough Concord has been waiting for.

Money manager Jack Silver of Silver Investment Advisory Research, who has a 2.5% stake in Concord, believes Concord's recent signing of accords with China-owned entities that have licenses to sell cameras in China will help boost sales to \$100 million in the year ending June 30, 1995. That's up from an estimated \$80 million in 1994 and \$59 million in 1993. The big question, says Silver, is what the bottom line will show: He sees earnings of \$1.10 a share in fiscal 1995 and 60¢ in 1994 vs. 1993's 99¢ loss. And he thinks the stock, now trading at 4¢ a share, will double in a year.

Concord, which manufactures cameras in Shenzhen, China, sells under its own name, as well as under the Keston and Le Clic labels. It also makes private-label cameras for mass merchandisers such as Wal-Mart Stores.

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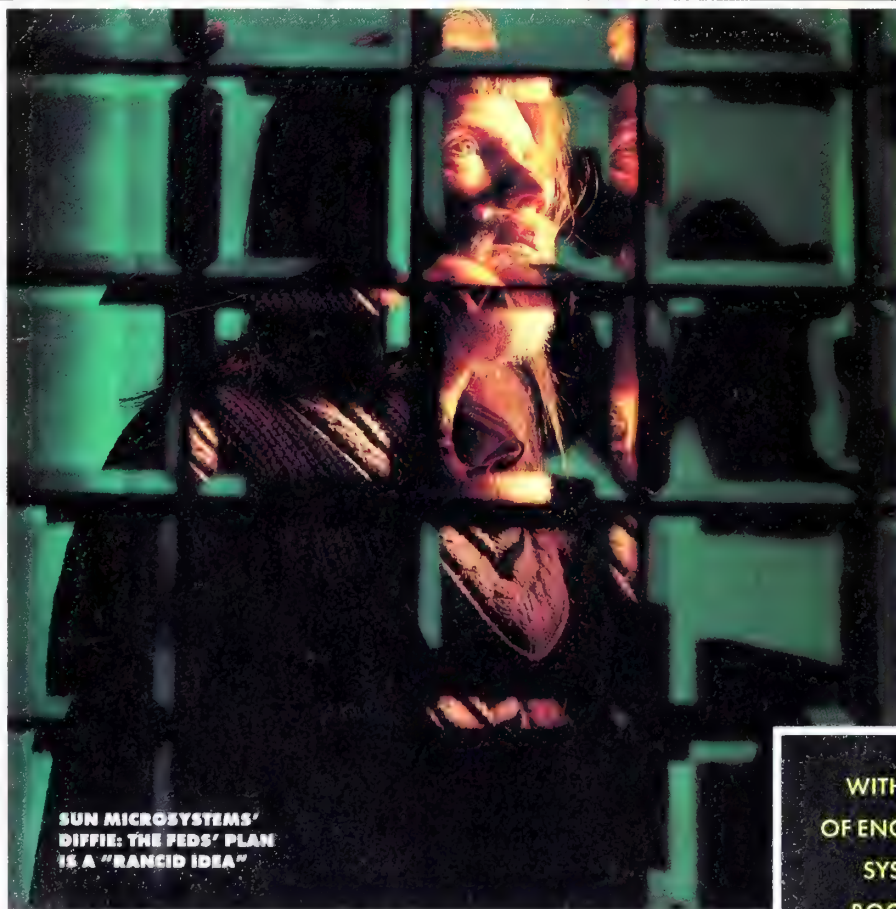
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DUKING IT OUT FOR THE DECODER RING

Secrecy pros are fighting federal limits on data-scrambling software



SUN MICROSYSTEMS' DIFFIE: THE FEDS' PLAN IS A "RANCID IDEA"

For Carl M. Ellison, the data highways spreading across the nation aren't just revolutionizing the way America communicates. The new networks are also flinging open the door to a new breed of bandits: information thieves. That's why the senior technical consultant at Stratus Computer Inc. in Marlborough, Mass., has become a secrecy fanatic. When executives at Stratus headquarters hold teleconferences with the company's San Jose (Calif.) engineering center or other offices, Ellison insists that their words and video be encrypted. He even encodes routine electronic mail. "You always have to assume someone is eavesdropping," he says.

Some co-workers call Ellison paranoid.

But the ease of tapping into today's electronic conversations or data—from the intimate secrets of Princess Di to details of corporate deals—has many companies agreeing with Ellison. "Cryptography is absolutely essential to any kind of electronic business communication," says Price Waterhouse partner Douglas Kalish. Banking information flows from automatic teller machines to central offices in code. Drugmakers such as Bristol Myers-Squibb Co. use encryption to hide information about new discoveries from prying eyes.

Cryptography experts estimate that

several million Americans use electronic cloaking, up dramatically from a few years ago. Actual sales are hard to calculate, since encryption features are usually embedded in software that has some other function, such as data storage or communications. But companies increasingly see the need to ensure the privacy of everything from medical records to sensitive e-mail missives sent to traveling executives. So "the market for encryption seems poised to take off," says Lynn McNulty, associate director of computer security at the Computer Systems Laboratory of the National Institute of Standards & Technology (NIST).

One huge obstacle stands in the way of this growth: the U.S. government. National-security and law-enforcement officials believe that the ability to intercept the bad guys' secret messages is vital to protecting the country. Powerful commercial encryption technology makes the job of the Federal Bureau of Investigation and the supersnoops at the National Security Agency much harder.

"BACK DOOR." That terrifies government spooks—and they're fighting back. One strategy is to push companies to use a system concocted by the National Security Agency dubbed Skipjack, which relies on a computer chip called Clipper, which has a powerful encryption program that can be used to scramble phone conversations, hide e-mail, or protect data on computer disks. But it also has a "back door" that lets the government listen in. To prevent unauthorized snooping, opening the back door would require a court order and a set of digital keys that would be kept in secret.

ate government agencies.

WITH SALES
OF ENCRYPTION
SYSTEMS
BOOMING
ABROAD, U.S.
COMPANIES SAY
THEY STAND TO
LOSE BILLIONS TO
FOREIGN RIVALS

The government's second approach is to try to prevent the sale of powerful encryption software outside the U.S. The Clinton Administration is strengthening export controls on computer hardware. But so far, it has declined to change rules that classify high-level encryption products as "munitions," which cannot be sold abroad without a special license. Even the less sophisticated encryption system introduced in such off-the-shelf

ware as Microsoft Corp.'s Excel spreadsheet is subject to mild export controls. The controls have touched off a serious controversy. "U.S. government agencies are undermining American corporate efforts to protect themselves," says House Judiciary Committee Chairman Jack Brooks (D-Tex.).

While AT&T, a big government supplier, has agreed to put Clipper in its smartphones, many companies simply don't trust the government's promises not to snoop illegally. Industry also worries that foreign governments that are concerned with niceties of privacy will insist on having their own set of rules if the system is used overseas. What's more, cryptography experts point out, encryption technology—without back doors—is already widely available outside the U.S. The Business Software Alliance claims that U.S. companies risk losing \$6 billion or more in sales if customers switch to foreign sources of software. "We are protecting ourselves without consulting the NSA," says Stephen T. Walker, president of Trusted Information Systems Inc., a Glenwood, N.J., maker of computer security software. Adds cryptography pioneer Whitfield Diffie, now Distinguished Engineer at Sun Microsystems Computer Corp.: "Clipper is the most stupid idea to come along in a long time."

A Policy Director Michael A. Smith insists that the government "will find acceptance in the marketplace." For export controls, he says, the NSA has already exercised considerable liberation, and opening up further would jeopardize national security. "As the installed base of encrypted information systems grows, so will its use by the 'bad guys,'" he said in a written response to questions posed by BUSINESS WEEK. That doesn't dismay encryption advocates. The NSA "believes that if they can stop shrink-wrapped package [of encryption-containing software] from going overseas, it's a victory," says Fred Mail, export manager for Hewlett-Packard. "Even though the floodgates are already open, that package might be the last straw that falls into the wrong hands."

BIG AFOOT? The industry is finding receptive ears on Capitol Hill and in interagency cryptography task forces headed by the National Security Council—which, unlike the code-breakers, is the White House policy shop for national security. The Administration is assuring companies that it won't mandate the Clipper chip instead of other methods. And some relaxation of export rules is inevitable. "There is no one who believes that the status quo can be maintained, even in the NSA," says a senior White House national-security official. Such changes, expected to come next year, could pave the way for

rapid growth in the use of encryption.

Encryption isn't just for keeping secrets. It can also be used to verify who sent a message and to tell whether it was tampered with en route. That's vital in banking. In entertainment, encryption could inhibit pirating of perfect digital copies of music and video. A scheme proposed by Charles Hartman, an IBM senior programmer in Mountain View, Calif., would require viewers or listeners to buy an electronic key to unscramble digital tapes. Without encryption, he warns, "people aren't going to want to put their valuable intellectual property on the information highway, and all you're going to have is garbage."

tem only to transmit a secret key, which is used to encode the message itself.

Diffie and Hellman expected an immediate impact. But the fear of spies wasn't great enough to warrant the adoption of systems viewed as hard to use. "In 10 years in this business, I've learned that security has to be free, high-quality, and something that doesn't get in the way," says James Bidzos, president of RSA Data Security Inc. in Redwood City, Calif., which markets the rights to the leading public-key system.

Bidzos has been trying to convince software publishers that they will sell more programs if they build encryption systems into them. His campaign is be-

THE CLASH OVER CRYPTOGRAPHY

Powerful encryption technologies protect industry's legitimate secrets. But law-enforcement agencies fear they'll also be used by terrorists and other bad guys. Here's what each side wants:

	GOVERNMENT	INDUSTRY	PROGNOSIS
TECHNOLOGY	Wants companies to use the Clipper chip, which has a "back door" to let Uncle Sam listen in.	Fears snooping by the U.S. and by foreign governments that might demand keys to the "back door."	Clipper chip will be used by government and by companies doing business with it. Beyond that, limited use.
EXPORTS	Wants to keep tight controls on overseas sales of cryptography software.	Points out that such software is already widely available from foreign suppliers.	Export controls will be relaxed early next year but not nearly as much as industry wants.
VERIFICATION	Promotes a government-developed technique for authenticating digital signatures on messages.	Prefers a cheaper, privately developed authentication method.	For the most part, industry won't adopt the government standard.

While the furor over encryption is fairly recent, much of the crucial technology dates back to the cold-war days of the 1970s. At the time, companies were sending data over private, leased lines. While the information was hidden from most criminals, the NSA was worried that the Soviets might be listening in, recalls Stanford University cryptography expert Martin E. Hellman. So the agency helped companies develop the Data Encryption Standard (DES). Basically, it's just a sophisticated version of the cereal box decoder ring. The sender uses a secret key to transform a message into gobbledygook. Then, the receiver uses the same key to decode it.

Secret key systems have a weakness, though: The sender must share the key with the recipient, which means it can be intercepted. So in 1976, at Stanford, Hellman, Diffie, and Ralph Merkle came up with an alternative. In their public-key system, messages are encrypted with one key that can be made public. The recipient uses a separate private key to decipher the text. The calculations are time-consuming, even on a fast computer. So for now, the most common approach is to use a public-key sys-

tem beginning to bear fruit. Price Waterhouse's Kalish says the firm decided to buy 35,000 copies of Lotus Development Corp.'s Notes network information-sharing program largely because of its "industrial-strength encryption." Bidzos says that because the secrecy feature is almost automatic, "about 500,000 users of Lotus Notes encrypt millions of messages a year—and they don't even know it." Other companies are following Lotus' lead. Apple Computer Inc., for instance, has incorporated public-key cryptography into the latest version of its System 7 operating software for the Macintosh.

Ultimately, how well these products sell and how well commercial data are protected will depend on whether American business sees the need for greater security. Says Ray Ozzie, president of IRIS Associates, which developed Lotus Notes: "My fear—and the fear of everyone in industry—is that it will take a widely publicized incident [of data theft] for people to wake up to how vulnerable they are." If that happens, cryptography fanatics such as Carl Ellison won't look paranoid anymore.

By John Carey in Washington, with Peter Coy in New York

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A GENE MACHINE STARTS CLONING CASH

Roche and Perkin-Elmer are ready to reap big rewards from PCR

In the mid-1980s, chemist Kary B. Mullis found a novel way to replicate DNA. Called PCR, for polymerase chain reaction, the ingenious biochemical technology rapidly makes millions of copies of a single strand of genetic material, producing a sample large enough to confirm the presence or absence of a specific gene, virus, or bacteria. In essence, the process lets scientists find a needle in a haystack by creating a haystack full of needles.

PCR quickly became indispensable: It is an essential tool for molecular biology, ferreting out strips of DNA that may indicate genetic disorders or the presence of pathogens. It can determine paternity or identify criminals by the blood or other tissue samples they leave at crime scenes. It can also help measure how effective chemicals are in treating viral and bacterial diseases. For this, Mullis won the Nobel prize in October. But from its invention, the big question has always been: Could a company reap commercial success commensurate with PCR's scientific value?

SLASHING COSTS. At last the answer seems to be yes. After two years of all-out effort to bring PCR to market, Hoffmann-LaRoche Inc. and Perkin-Elmer Corp., partners in a strategic alliance, are poised to reap the reward. PE already is turning a profit on more than \$100 million a year in sales of PCR instruments and chemicals to researchers, a market that is growing 20% a year, says Dr. Peter Barrett, executive vice-president of PE's Applied Biosystems Div. PE sees such a bright future that this year it paid \$350 million in stock for Applied Biosystems Inc. in Foster City, Calif., a leading supplier of the systems that automate the processes that surround PCR. Meanwhile, drawing on Roche's experience in medical testing and Perkin-Elmer's skill in scientific instruments, the companies are rolling out

tests using PCR and hope soon to have some that diagnose multiple ailments. By the late 1990s, predicts Thomas P. MacMahon, president of Roche Diagnostics Group, sales of PCR instruments, chemicals, and kits to detect infectious and genetic diseases and cancer should top \$1 billion.

HOW PCR HELPS DIAGNOSE AN ILLNESS

PCR, or polymerase chain reaction, is a technology that rapidly copies a single strand of DNA millions of times. The result is a sample large enough to confirm the presence or absence of a specific gene, virus, or bacteria.



- 1 A minute sample of blood, tissue, or urine is placed in a thermal cycler.
- 2 The cycler mixes the sample with several substances, including *taq* polymerase, an enzyme, then rapidly heats and cools the brew at many millions of times.
- 3 That process separates the DNA's specific gene sequence. The machine makes millions of copies of the sequence.
- 4 The copies are then used for simultaneous test for a variety of diseases—resulting in a speedier, more accurate diagnosis.

PCR's appeal in the \$25 billion medical-testing market boils down to this: It can produce test results for elusive diseases and infectious agents faster and with greater sensitivity than other technologies. And speed means lower lab costs. "Every test you can apply PCR to, the cost goes down," says Dr. Alan Bale, director of the Diagnostics Laboratory at Yale University

Medical School. Faster, more accurate diagnosis also allows earlier intervention, which can cut treatment costs. Since cost-cutting now drives many health-care decisions, demand for PCR is expected to take off.

That's a turnaround from the technology's early days. Mullis hatched as a researcher at Cetus Corp. and got a \$10,000 bonus for the discovery. But Cetus was developing cancer drugs and decided it couldn't plow resources into PCR, too. So in 1986, it struck a deal with Perkin-Elmer to sell PCR in research markets. Cetus won a patent on the process and developed *taq* polymerase, an enzyme that prompts the DNA to copy itself (table). PE then enhanced its \$12,000 PCR System 9600, the standard equipment for PCR testing.

By 1991, financially troubled Cetus was negotiating a merger with Chiron Corp., which was more interested in Cetus' manufacturing plant and future drug prospects than in PCR. "We decided to fix [PCR] up and sell it," says a former Cetus executive. That meant clearing a hurdle in the way of PCR's use in diagnostic testing: its tendency to falsely indicate that a piece of DNA was present. The problem was that traces of DNA from previous tests would be copied, making it appear that were present in the new sample.

Cetus licked the problem by developing a method to destroy these DNA traces. Roche then paid \$300 million in late 1991 to record at the time for a health care technology, for the patent and manufacturing rights to PCR, except for rights PE retained. As part of the deal, Roche formed an alliance with PE so that PE kept worldwide rights to market its PCR instruments, Roche chemicals, and diagnostic kits in research and industrial markets. Roche sold PE's equipment and its own tests to diagnostic markets.

BIGGER SAMPLES. In the future, Roche is likely to face so much competition. Stratagene Inc. in La Jolla, Calif., makes a reagent for a competing process called ligase chain reaction (LCR). And Abbott Laboratories and Baxter International Inc. are working separately to design ways to amplify samples without infringing on Roche's patent. But even if competition does appear, Roche has a commanding lead. *Taq* polymerase is used in 95% of PCR work: It's the principal enzyme in Roche's PCR test kits and recommended

in the PE system. In addition, Roche's Roche Biomedical Laboratories has 600 testing labs in the U.S., and licensed 170 more worldwide to do tests.

Roche is developing a portfolio of PCR kits for this network as fast as it can. Last June, it introduced Amplicor, the first FDA-approved, premixed PCR diagnostic kit in the U.S. It detects chlamydia, a hard-to-diagnose sexually transmitted disease that infects 4 million new men annually. Next year, Roche plans to introduce test kits for tuberculosis, hepatitis C, HIV, and a combination test for chlamydia and gonorrhea.

Conventional tests for such diseases take samples—blood or tissue, for instance—from patients and try to identify any organisms they might contain. In any case, the disease organisms multiply to the point where they can be detected. That can take weeks. For some cases, "PCR will shorten testing to a day," says Yale's Bale. Tuberculosis is the point. It takes four to six weeks to do a culture test for TB, says Mahon. "With PCR, we can have that information in less than a day," he says. A faster test means a patient spends less time in isolation waiting for a diagnosis and that treatment starts sooner. It can also diagnose diseases caused by genetic mutations, such as cystic fibrosis.

MAIN GAIN. Along with all this, the technique can spare patients trauma. Too often, for pneumocystis carinii pneumonia, common in AIDS patients, doctors take a sample of lung tissue. They get it through an uncomfortable surgical procedure that costs about \$4,000. A PCR-based test can be done using the patient's sputum. Advantage: no pain and no price. The PCR test for chlamydia uses a urine sample, while culture tests require fluid from the urethral tube, a painful procedure that deters some men from getting tested for the disease.

Roche's great sensitivity also makes it useful for detecting disease where the organism is "slow, difficult, dangerous, or impossible to grow," says John Sninsky, director of research for Roche Molecular Systems. In tests for chlamydia, for instance, "cultures often fail to detect the organism" in early stage infection, says Donald Jungkind, director of Microbiology Clinical Laboratory at Thomas Jefferson University Hospital in Philadelphia. But, he says, the PCR is 95% accurate, vs. 67% for culture, and takes three to four minutes, vs. 24 to 40 minutes for cultures.

Roche will likely face competition eventually. But Kathy Ordonez, president of Molecular Systems, thinks Roche keeps its lead even then: "We have a good head start," she says. For now, in fact, PCR is in a class by itself.

By Resa King in Norwalk, Conn.

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Developments to Watch

BY RUTH COXETER

DIGGING THE MUD BELOW THE SKY ABOVE



How does a bulldozer operator know exactly how deep to dig or how high to pile? One way is to calibrate where the blade is by using a laser beam shining at a known height. Ohio State University's Center for Mapping turned to the U.S. government's constellation of Global Positioning System (GPS) satellites for some heavenly pre-

l. George C. Dedes, a center researcher, says a receiver tied on a pole attached to the bulldozer's blade calculates the height by comparing readings from several satellites. Ohio State gets unusual accuracy from GPS by using formulae to figure distance to within a fraction of a radio wave. Technology has its price: The receivers, from Allen Associates Inc. in Westlake Village, Calif., cost \$25,000 each. But Mapping Center Director John Bossler predicts "absolutely will be affordable in a few years."

POLYMER PATCHES BLOOD VESSELS

Why bandage scraped knees and elbows, so why not damaged arteries? That's what scientists at Focal Inc. in Cambridge, Mass., asked. After a surgeon cleans a heart of clogged arteries, clots can form where blood comes in contact with injured artery walls. Most clots dissolve. But platelets in clots release growth factors that stimulate smooth muscle cells to overproduce tissue and clog blood vessels, which may necessitate a second procedure. Anticlotting drugs are completely effective and may cause internal bleeding. Focal's idea: Coat injured artery walls with a polymer "glue" that dissolves when healing is complete. A liquid polymer, licensed from the University of Texas at Austin, is injected into the artery. A light beam introduced by means of endoscopy hardens the liquid to an ultrathin film—thinner than three red blood cells. Focal is also testing the polymer as a protective coating to prevent adhesions after surgery. For example, after an ovarian cyst is removed, scar tissue may block the egg's passage from the ovary to the fallopian tubes. If the Food & Drug Administration approves, human trials with the polymer will begin next year.

IT'S NOT BURN IT, IT'S TO MAKE CARS

Auto makers are test-driving a byproduct from papermaking for use in cars. Rockwell International Corp.'s automotive unit will try out a material made from lignin—a substance that makes up about 25% of most woods—as a substitute for some of the resins used in producing plastic parts. Currently, an estimated 16 million tons of lignin are discarded annually in the U.S.

Using a patented process, Lenox Resources Ltd. in Port Huron, Mich., separates lignin from a black liquid waste that paper plants generate. Adding special chemicals turns the lignin into a resin that may one day replace more expensive and toxic ones such as epoxy, phenolic, and urethane resins. Lenox and Rockwell recently signed an agreement for Lenox to provide chemical expertise and materials that Rockwell will use to develop plastic materials and components for the automotive market.

CRAFTY CRYSTALS— JUST AS SMALL AS THEY CAN BE

It isn't yet nanotechnology—patching things together atom by atom—but University of Georgia researchers believe they're close. Chemist Michael Duncan and graduate student Jeffrey S. Pilgrim have discovered a way to grow tiny crystals, measured in mere billionths of a meter, which may prove useful in making both semiconductor chips and catalysts. Dubbed nanocrystals, these flyspeck crystals can contain the absolute minimum number of atoms—27—for cubic structures composed of two elements such as carbon and a metal.

The nanocrystals are produced by vaporizing titanium or other metal by zapping it with a laser, then mixing the metal vapor with methane, a gas that contains carbon. If the research proceeds smoothly, Duncan says it could ultimately be possible to grow metal-carbon structures that would be far smaller than transistors on today's microchips. As catalysts, titanium-carbon nanocrystals should be vastly more efficient than anything now known. That's because the key to catalytic processes is the amount of surface area exposed to the reaction—and shrinking the size of catalyst molecules increases their surface-to-volume ratio. Duncan cautions, though, that his work is "still very fundamental, and it's not sure when, if ever, it will become practical."

10,000 PCs UNDER THE SEA?

Charles Darwin was content to use a pen and paper to record his field data. But soon, marine biologists may count fish, check maps, and diagnose equipment flaws with an underwater personal computer. The WetPC was originally developed by Bruce W. Macdonald, a marine technologist at the Australian Institute of Marine Science in Townsville, Queensland, to survey the Great Barrier Reef.



Macdonald mounted the computer right on the diver's tank. Cables run from the tank to a mask-mounted display and a chest-mounted keyboard. If linked to an underwater modem, the computer can communicate with other WetPCs and computers on the surface, cutting down on expensive time spent underwater. Internode, another Australian company, is using the WetPC to develop a navigation system that calculates the diver's position to within 10 centimeters, using feedback from three transmitters. The big market: underwater maintenance of offshore oil rigs. Sales over the next five years might reach 10,000 units, or \$270 million, Macdonald estimates.

VITAMINS: SIFTING THROUGH THE CURE-ALL CLAIMS

Bolstered by an aging population and a push for preventive health care, vitamins have grown into a \$4 billion industry, promising weapons against everything from colds to cancer. It's no small measure of their importance that vitamins have come under intense scrutiny from the Food & Drug Administration, which wants to impose standards on content and health claims. This effort is bitterly opposed by vitamin makers, who want to continue to police themselves, and by users who fear losing easy access to products.

Yet even as the opposing forces duke it out in the "war of the rose hips," the popularity of nutritional supplements is growing. Devotees go so far as to swear that vitamins can restore gray hair to its former color and let you lose weight while you sleep, even though much of the evidence is more anecdotal than scientific.

Sorting through the health claims is difficult even for the authorities.

Hoping to clear up some of the confusion, the government is sponsoring a number of vitamin studies. Already, the FDA has approved claims that calcium supplements can reduce bone loss due to osteoporosis, and that daily doses of 0.4 mg of folic acid for pregnant women can prevent neural-tube birth defects of

the spine and brain, such as spina bifida.

More exciting is the latest research showing that beta-carotene and vitamins E and C may help cut the risk of heart disease and some cancers. The theory is that as antioxidants, these substances stymie the formation of free

radicals—molecules that are missing an electron, a void they fill by robbing other tissues, thereby damaging them. Antioxidants have extra electrons they donate to free radicals, which halts the damage. For example, vitamin E seems to prevent "bad" (low-density lipoprotein) cholesterol from oxidizing, or losing an elec-

tron, and binding to artery walls. And a recent study in mice suggests the mineral selenium may reduce the risk of some cancers. But this may not apply in the U.S. because the study used a selected, selenium-deficient population.

NEON LIGHTS. Scientists hesitate to voice some results until randomized testing is done. The risk of disease has dropped for some participants because of lifestyle—not their vitamin. "We can't explain that some of this benefit is due to women [and men] being generally in better health," says Dr. JoAnn Manson, co-director of women's health at Boston's Brigham & Women's Hospital, who found positive results in a study of nurses using antioxidants.

Even if future research bears out the claims, nutritionists and scientists agree you should be getting most of your nutrients from a healthy diet rather than popping. "You can't smoke and be on a diet and lose weight and take vitamins and not have to worry about it," says Jeffrey Blumberg, associate director of the FDA's Center for Nutrition Research. "A high-fiber diet containing daily servings of fruits and vegetables should prove to equate antioxidants—like vitamin E, which can't be synthesized in food in doses that



s important to get at the following minerals in your vitamin supplement: iron, zinc, copper, niacin, selenium, and magnesium, according to CSPL.

CSPI is one of the few organizations that can provide some signposts in the health-supplement jungle. Another source is the Consumer Nutrition Hotline (800 366-1655), backed by the American Dietetic Assn. It's staffed by a

Check the rate at which vitamins dissolve in the stomach. Some have been known not to dissolve or be absorbed hence providing no benefit. The U.S. Pharmacopoeia, which sets standards for drug composition, offers dissolution rates that some vitamin makers have adopted voluntarily. Water-soluble vitamins such as the Bs and C should dissolve in 30 to 45 minutes. Standards for fat-soluble vitamins (A, D, and E) should be issued in 1994. According to CSPI, all vitamins made by P. Leiner Nutritional Products—about half of the store-labeled brands—dissolve

In the future, it may be easier to evaluate what's in a vitamin bottle and how it can help you. For now, there appears to be little risk in taking supplements in moderate doses. At worst, you'll simply enrich the vitamin makers. At best, you'll improve your quality of life. *Pam Black*

HEALTH CLAIM	COMMON USAGE VS. RECOMMENDED DAILY ALLOWANCE	TOXICITY	COMMENTS
VITAMIN A			
Promotes good vision, fortifies mucous membranes	Up to 5,000IU (RDA 5,000IU)	More than 10,000 IU can cause liver damage, possibly birth defects	Beta-carotene is preferable
VITAMIN B COMPLEX			
Strengthens nervous system	Varies	Can cause neurological damage	Take as group to avoid imbalance
BETA-CAROTENE			
May help prevent cancers and heart disease	15-30mg (No RDA)	Too much may turn skin orange	Better source of vitamin A than premade A
VITAMIN C			
May help prevent cancer, heart disease,	Up to 1000mg (RDA 60mg)	Above 5,000mg may cause diarrhea, kidney stones	Best to buy the kind with rose hips
VITAMIN E			
Fights cancer and heart disease	100-400IU (RDA 30IU)	None	Natural may work better than synthetic

DATA: FOOD & DRUG ADMINISTRATION, CENTER FOR SCIENCE IN THE PUBLIC INTEREST, THE VITAMIN BIBLE



Postmenopausal women may want to pay special attention to getting enough calcium to prevent osteoporosis. Studies suggest that vitamin D helps women retain calcium. CSPI says women living in northern climes may not

Otherwise, CSPI's newsletter, *Nutrition Action*, which mostly covers food, includes some valuable guidance on shopping for vitamins. For one thing, you should be able to get all the vitamins you need for \$10 a

Smart Money

PART STOCK, PART BOND: HYBRIDS WITH YIELD APPEAL

You're starving for higher income but don't have the stomach to play the stock market. Those 3% rates on certificates of deposit don't offer much nourishment, and bond yields are nothing to brag about. Individuals may find an appetizing alternative in convertible preferred stocks, hybrid securities with characteristics of both stocks and bonds.

Convertible preferreds can be exchanged any time for a fixed number of common shares in the same company. The appeal: Preferreds provide superior yields and a better credit standing than ordi-

nable-securities analyst at Kidder Peabody.

He favors Ford Motor's convertible preferreds, which boast a 4% dividend yield, vs. 2.6% for Ford's common. The yield is especially attractive given that the premium you pay for the convertible is just 4% above the common-stock value. While the common was trading recently at 61½, the convertible preferred was at 104, and each convertible share could be exchanged for 1.63 common shares.

Ng-Yow recommends convertibles that have a break-even point—the time it takes for the convertible's current

yield advantage to recoup the premium—of three to four years. Since the issuing company can call a convertible for redemption—usually after the common stock appreciates—investors who want to enjoy higher yields over the long haul should seek call-protection provisions of three years or more. Ford's convertibles can't be called until

Dec. 7, 1997; Delta Air Lines' can't be called before June 24, 1995, and then only if the common stock, now 60, has reached 82%.

The hybrids do carry risks. Convertible preferreds are sometimes issued in distressed situations to raise capital when the stock price is depressed, says John Wylie, a portfolio manager at Nicholas-Applegate Capital Management. So investors need to scrutinize company fundamentals as they would with any stock. Also, most preferred dividends are fixed. A rise in the common dividend could wipe some shine off your investment, since you paid for a yield advantage that no longer exists.

Edward Baig

A PREFERRED SAMPLING

Issue	Price	Yield	Dividend
BANK AMERICA	55.43	5.6%	37%
COOPER INDUSTRIES	17.50	6.1	14
DELTA AIR LINES	104.13	4.0	8
FORD MOTOR	54.50	5.8	31

nary stocks, yet the convertible feature offers the chance to profit if the underlying commons appreciate. Through the first three quarters of 1993, according to Kidder Peabody, total returns on newly issued convertible preferred stocks have outpaced their underlying commons 16.02% to 12.76%.

LONG HAUL. Convertible preferreds are usually less risky than ordinary shares, though they'll return less when a stock takes off than if you had bought common shares to begin with. "A typical convertible will give you 66% to 75% of the upside appreciation of a common stock but only 33% to 35% on the downside," says Richard Ng-Yow, a convert-



Autos

A SLICK NEW SAAB—WITH GM GUTS

What kinda car is that?" was a question I often heard when I was a kid. People were curious about the first Saab they ever saw—my dad's red Model 93. In the mid-'60s, the Swedish-built car was indeed strange: bug-eyed and pear-shaped, with front-wheel drive. It certainly wasn't like any Chevy or Ford, or even the VW Beetle.

Later we had a Saab 96, then a Model 95 wagon. I've since stayed with Saab, with occasional forays into makes from Japan, Germany, Britain, and Detroit. In the 1980s, my wife and I each drove a 900, and we now own a 9000 CSE Turbo.

So when Saab launched a new 900, the first major redesign in 15 years, it sparked my interest, especially since General Motors had bought 50% of the auto maker in 1990. Would the new car preserve the special mix of performance and safety as well as the unique Saab design? Or would GM's influence make it look like every other cookie-cutter sedan?

The new 900S, a five-door hatchback, is certainly an improvement over its predecessor. It maintains quality engineering, passenger safety, and high performance, and it no longer seems like an auto-

motive oddball. The new car retains the distinctive Saab shape but has a much smoother, aerodynamic look.

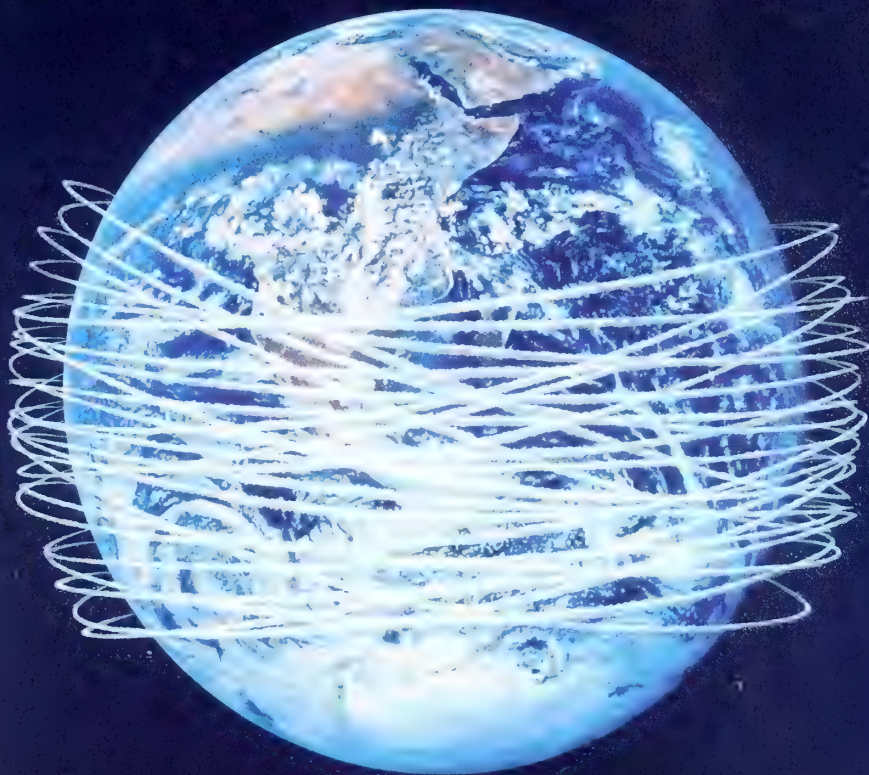
Inside, the driver sits lower, with more comfort and control. Ergonomics are much improved, with a telescopic steering wheel, rounded switches, and a revamped instrument cluster. There's a new, one-touch button that blackens all dashboard lights except for the speedometer, easing eye strain on night drives. Yet some oddities remain—the ignition switch is still located between the seats and, in this digital age, Saab keeps an analog clock in the center of the dash.

UNDER THE HOOD. The new space is cavernous. Fold down the rear seats fully and you have the older 900, you can carry a couch. However, rear seat passenger space is tighter in the new car, especially in the middle spot. Standard safety features include air lock brakes, dual air bags, a new dead-bolt security system, and steel-reinforced doors. An optional traction control system greatly improves the handling on icy roads.

GM's influence is under the hood, where enthusiasts say long felt Saab needed a six-cylinder engine option. The 172-valve GM six (\$2,295, Base built, 170 horsepower) provides a spirited alternative to Saab's traditional, peppy, four-cylinder engine. With a base price of \$20,000 and a short list of options, the 900S will impress only loyal Saab owners—others who once said: "What's that?"

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Ten years ago, Bob Mahoney, a high-tech consultant to Shell Oil and other companies, started a business-oriented electronic bulletin board in a spare bedroom in his Milwaukee apartment. He used his life savings and equipment bought from Shell to cobble together a system, built around a vintage \$5,000 IBM PC; a \$7,000, megabyte hard drive storing some 700 files; and a 300, 1,200-baud modem. From such crude beginnings, the Exec-PC board has blossomed into a \$1 million-a-year concern run out of an office in Grove, Wis. Mahoney offers 650,000 files, from business programs to games, to more than 10,000 customers, who log on for \$75 per year. Mahoney is part of a burgeoning grass-roots trend: more than 53,000 public-access computer bulletin boards have sprung up in North America, according to Jack Rickard, editor of *Boardwatch Magazine*. Bulletin boards are the electronic equivalent of clubhouse taverns, places where users share software, exchange messages and files, and chat. Some board owners, like Mahoney, make money out of this, but it's rare: Rickard estimates only about 5% of boards are profitable, with a return to 15% breaking even. Most operators are hobbyists who want to schmooze with computer comrades about their passions, anything from model railroads to bird-watching. Frank Mahoney started the Irish Connection out of his home in Arlington, Va., for people with a Celtic bent. **NEED A HOOK.** Successful, topic boards, such as the PC or Aquila BBS in Chicago, offer many shareware programs that users can try out before buying. These boards offer customer service. The goal is attracting users—

Computers

SO YOU WANT TO BE CHAIRMAN OF THE (BULLETIN) BOARD?



whether for profit or fun—is finding a hook: Nashville Exchange lets you complain online to the mayor; others offer X-rated material or a way for singles to connect.

Starting a board is relatively simple and inexpensive. You'll need a spare PC, but even an antiquated IBM XT will handle the chores of a one- or two-line system. A slowpoke modem (1,200 or 2,400 baud) will do fine, though speedier modems (14,400 baud) are ever-cheaper and make a big difference in performance. A separate modem is required for every phone line, but makers offer steep discounts for system operators.

count at a single bank for up to \$100,000. Instead, it will cover all your individual retirement accounts, Keoghs, and simplified employee pensions combined for a maximum of \$100,000 at any one

Software that answers the phone and lets callers get access to files can be obtained at little cost. Tyros can download \$35 to \$100 shareware

FEW OPERATORS
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MOST LOVE TO GAB
WITH PC COMRADES

programs on CompuServe or other on-line services. The RBBS-PC program may be downloaded and used for free.

The leading commercial software packages include

institution. If you exceed the limit, make sure your bank is sound. Veribanc (800 44 BANKS) will check your bank's health for \$10.

■ **NANNY TALK.** There's a new newsletter serving families

Wildcat BBS (800 999-9619), Remote Access (800 648-9800), Searchlight (800 780-Lite), Major BBS (800 328-1128), TBBS (303 699-6565), and PCBoard (800 356-1686). Wildcat, which Rickard ranks along with Searchlight as a good choice for beginners, costs \$129 for a single-line system, \$249 for 10 users, and \$799 for 256.

LIST KEEPERS. Newcomers should think small. You'll pay the phone company about \$15 per month for each dedicated line, which can typically handle about 35 calls a day. Says Dan Linton, owner of Software Creations BBS, which markets shareware: "People think when they plug in a modem, the lights will go on 'round the clock. When we started, we got three calls a week."

Indeed, just because you build a system doesn't mean callers will check you out. For one thing, people have to know your board exists, so you'll need to get onto a board list in your area. *Boardwatch* publishes names of regional and special-topic list keepers.

Once folks start calling, you can easily spend hours answering messages, moving around files, and fixing hardware glitches. Operators often search boards in other areas for the hottest shareware programs to offer their own customers. You can also purchase shareware on CD-ROM. Night Owl's Publisher (800 682-7596) sells a 600-megabyte CD-ROM disk containing about 5,000 files for \$49.

If you want your board to thrive, commitment certainly counts. Says Bob Mahoney: "Ask yourself: It's Super Bowl Sunday, you're going to a party, and you can taste the chips. Then, before the game starts, the system crashes. What do you do? If the answer is you'll fix it, start a board." *Edward Baig*

that employ in-home child care. Bimonthly *Nanny News* (\$14.95 a year) includes articles on maintaining privacy, the effects of health reform, and childhood development. For a free copy, call 800 M4 NANNY.

Worth Noting

MAKE MONEY. As of Dec. 1, the Federal Deposit Insurance Corp. will no longer guarantee each retirement ac-

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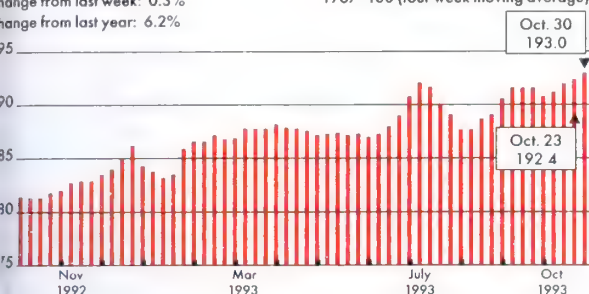
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BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 6.2%

1967=100 (four-week moving average)

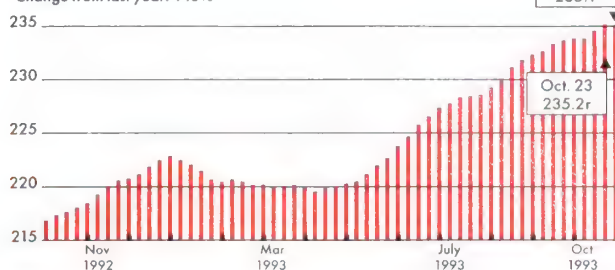


The production index increased during the week ended Oct. 30. On a seasonally adjusted basis, output of autos, crude-oil refineries, paperboard, and per rose. Steel, trucks, electric power, and coal production declined, while lumber input and rail-freight traffic were unchanged. Before calculation of the four-week moving average, the index fell to 192.8, from 193.3. The index for all of October rose to 193, from 191.2 in September.

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: 0%
Change from last year: 7.8%



The leading index fell for the week ended Oct. 30. It was the first decline since Apr. 10. Declines in stock prices and slower growth in real estate loans and M2, along with higher bond yields, offset small improvements in the growth of materials prices and business failures. Before calculation of the four-week moving average, the index dropped sharply, to 233.4, from 235.3. For the month of October, though, the index stood at 235, up from 233.8 in September.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
IRON (11/6) thous. of net tons	1,834	1,910#	8.1
STEEL (11/6) units	133,876	135,499r#	9.2
CRUDE OIL (11/6) units	113,158	113,947r#	24.8
ELECTRIC POWER (11/6) millions of kilowatt-hours	56,331	53,836#	2.9
CRUDE-OIL REFINING (11/6) thous. of bbl./day	13,624	13,708#	0.6
COAL (10/30) thous. of net tons	18,384#	19,445	-3.0
PAPERBOARD (10/30) thous. of tons	862.6#	830.9r	8.2
RAIL (10/30) thous. of tons	814.0#	800.0	1.6
PIPE (10/30) millions of ft.	483.6#	490.4	-0.4
FREIGHT (10/30) billions of ton-miles	23.0#	23.2	4.1

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFPA, Association of American Railroads

CURRENCY EXCHANGE

	Latest week	Week ago	Year ago
U.S. DOLLAR (11/10)	107	107	124
GERMAN MARK (11/10)	1.70	1.70	1.57
BRITISH POUND (11/10)	1.47	1.48	1.54
FRANCO (11/10)	5.91	5.91	5.31
EURO DOLLAR (11/10)	1.31	1.31	1.26
FRANC (11/10)	1.50	1.50	1.42
ARGENTINE PESO (11/10)	3.151	3.113	3.110

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British expressed in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
WHEAT (11/10) \$/bushel	374.900	363.550	13.2
CRAP (11/9) #1 heavy, \$/ton	137.50	131.50	54.5
TUFFS (11/9) index, 1967=100	215.5	215.6	10.2
CR (11/6) c/lb.	82.8	84.4	-20.5
NUM (11/6) c/lb.	49.5	50.6	-5.9
(11/6) #2 hard, \$/bu.	3.50	3.38	-4.1
(11/6) strict low middling 1-1/16 in., c/lb.	56.24	56.25	13.9

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals and Minerals City market, Memphis market

Notes in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. #=Southern Forest Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (11/5) S&P 500	463.52	465.73	10.6
CORPORATE BOND YIELD, Aaa (11/5)	6.85%	6.73%	-15.6
INDUSTRIAL MATERIALS PRICES (11/5)	94.0	94.4	-2.4
BUSINESS FAILURES (10/29)	330	339	-16.5
REAL ESTATE LOANS (10/27) billions	\$404.6	\$407.4r	0.4
MONEY SUPPLY, M2 (10/25) billions	\$3,498.2	\$3,504.1r	1.0
INITIAL CLAIMS, UNEMPLOYMENT (10/23) thous.	348	351	-3.3

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Oct.)	193.0	191.2r	6.2
12 LEADING INDICATORS COMPOSITE (Oct.) index	235.0	233.8r	7.8
EMPLOYMENT, CIVILIAN (Oct.) millions	119.9	119.5	1.9
UNEMPLOYMENT RATE, CIVILIAN (Oct.)	6.8%	6.7%	-8.1

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (10/25)	\$1,116.0	\$1,118.2r	10.6
BANKS' BUSINESS LOANS (10/27)	270.7	271.0	-2.8
FREE RESERVES (10/27)	843r	670r	-11.5
NONFINANCIAL COMMERCIAL PAPER (10/27)	158.9	161.1	8.6

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/9)	2.95%	3.02%	2.91%
PRIME (11/10)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (11/9)	3.39	3.37	3.59
CERTIFICATES OF DEPOSIT 3-MONTH (11/10)	3.33	3.37	3.52
EURODOLLAR 3-MONTH (11/5)	3.35	3.29	3.46

Sources: Federal Reserve Board, First Boston

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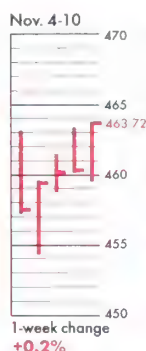
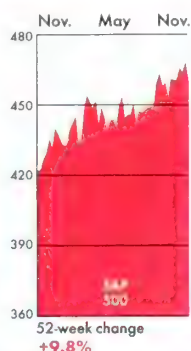
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Investment Figures of the Week

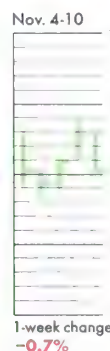
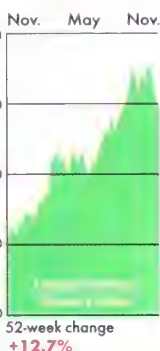
COMMENTARY

Investors held their own this week, despite continued upward pressure on interest rates and signs the economy was expanding. Dow industrials climbed almost 24 points on Nov. 10 in the aftermath of the clear victory of President Al Gore over Ross Perot in the NAFTA debate. The American stock market breathed a sigh of relief—and leaped more than 80 points, or 4%. Tokyo, on the other hand, cannot pull out of its slump. The Nikkei fell 6.5% for the week, hitting an eight-month

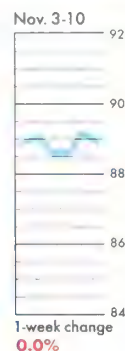
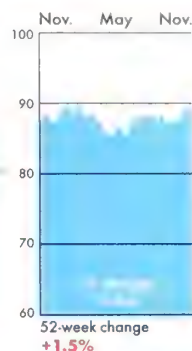
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3663.6	0.0	13.1
SMALL-CAP COMPANIES (S&P MidCap Index)	174.9	0.9	14.6
ALL COMPANIES (Russell 2000)	257.0	-0.1	24.2
SMALL COMPANIES (Russell 3000)	267.6	0.1	11.2

HIGH STOCKS	Latest	% change (local currency) Week	% change 52-week
DOW JONES (FINANCIAL TIMES 100)	3098.5	-2.0	14.9
NIKKEI INDEX	18,121.7	-6.5	11.1
TSE COMPOSITE	4269.5	0.6	29.9

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.19%	3.14%	3.14%
30-YEAR TREASURY BOND YIELD	6.21%	6.12%	7.67%
S&P 500 DIVIDEND YIELD	2.75%	2.62%	2.96%
S&P 500 PRICE/EARNINGS RATIO	22.5	22.4	22.8

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	454.2	453.5	Positive
Stocks above 26-week moving average	54.5%	62.3%	Negative
Speculative sentiment: Put/call ratio	0.44	0.40	Positive
Insider sentiment: Vickers sell/buy ratio	2.24	2.38	Neutral

INDUSTRY GROUPS

4-WEEK LEADERS

	% change 4-week	% change 52-week
DES	18.4	-18.9
TOMOBILES	11.2	65.5
LD MINING	11.2	67.2
TRUMENTATION	9.9	28.3
CKING	9.8	-4.3

4-WEEK LAGGARDS

	% change 4-week	% change 52-week
UTION CONTROL	-16.9	-34.5
AND GAS DRILLING	-14.6	7.9
INSURANCE	-12.8	10.8
ELS AND MOTELS	-12.1	77.2
OR REGIONAL BANKS	-11.1	7.5

Strongest stock in group

	% change 4-week	% change 52-week	Price
REEBOK INTERNATIONAL	26.9	9.6	31 1/4
CHRYSLER	14.3	103.2	54 7/8
ECHO BAY MINES	13.3	148.8	12 3/4
PERKIN-ELMER	11.7	9.4	33 3/8
CONSOLIDATED FREIGHTWAYS	28.5	26.5	20 7/8

Weakest stock in group

	% change 4-week	% change 52-week	Price
WMX TECHNOLOGIES	-20.3	-40.4	24
HELMERICH & PAYNE	-18.0	17.4	27 7/8
TORCHMARK	-19.9	-18.5	42 7/8
PROMUS	-16.1	230.4	65 7/8
FIRST UNION	-15.6	4.7	39 1/8

BRIDGE INFORMATION SYSTEMS INC.

MUTUAL FUNDS

ERS	%	LAGGARDS	%
4-week total return		4-week total return	
ESCO STRATEGIC GOLD	14.7	DFA JAPANESE SMALL COMPANY	-14.1
STONE PRECIOUS METALS HOLDINGS	13.9	CAPSTONE NIKKO JAPAN	-9.3
PRECIOUS METALS	12.7	EQUITY STRATEGIES	-9.2
52-week total return		52-week total return	
NGTON STRATEGIC INVESTMENTS	221.5	PILGRIM CORPORATE UTILITIES	-17.4
ED SERVICES GOLD	91.3	INVESTOR STRATEGIC ENVIRONMENTAL SERVICES	-13.1
G GROWTH	87.5	JENSEN	-8.4



MORNINGSTAR INC.

RELATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts	Foreign stocks	Treasury bonds	Gold	U.S. stocks	Money market fund
ent the present					
f \$10,000					
d one year ago					
portfolio					
ages indicate					
total returns					
	\$14,262	\$12,549	\$11,370	\$11,226	\$10,218
	-3.41%	-0.25%	+3.58%	-1.73%	+0.04%

on this page are as of market close Wednesday, Nov. 10, 1993, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close

Nov. 9. Mutual fund returns are as of Nov. 5. Relative portfolios are valued as of Nov. 9. A more detailed explanation of this page is available on request.

NAFTA: A DEFINING MOMENT FOR AMERICA

 On Nov. 17, Congress will cast its first official vote on America's role in the post-cold-war era. The vote on the North American Free Trade Agreement is not simply about Mexico and jobs: It is a referendum on the nation's willingness to build a new institutional architecture for international relations. The real question before Congress is whether the U.S. has the guts and vision to replace the dead-ly geopolitical confrontation of the cold war with a new "geoeconomic" competition based on open markets, free trade, and regional alliances.

Such defining moments are rare in history. Only twice before in the 20th century has Washington faced a decision of such magnitude. Once it punted, with disastrous results. In 1920, Congress rejected President Woodrow Wilson's request for membership in the League of Nations, effectively turning the nation isolationist and protectionist. The Smoot-Hawley Tariff Act followed, triggering the Great Depression and paving the way for World War II.

The horror of that war drove home to America the disastrous consequences of retreating from the world. Congress voted to finance the Marshall Plan for Europe, create NATO, and join the International Monetary Fund and the General Agreement on Tariffs & Trade. America took the leading role in constructing the international organizations that defined the next half-century, thereby preserving for itself relative peace and a great deal of prosperity.

The same choice between global leadership and pusillanimous retreat is before Congress once again. A bizarre alliance of groups is pounding away at the 30 or so Congress members wavering on NAFTA. They are led, of course, by the would-be William Jennings Bryan of modern day America—Ross Perot. The populist poseur, his image riding across America's TV screens, is trying to rally the fearful and the wounded to fight against the forces of global competition.

THE CHOICE IS LEADERSHIP OR RETREAT

Just as Bryan in the 1890s called for a silver standard and inflation to defend farmers from industrialization, so Perot calls for protectionism to save workers from globalization and technological change. Perot's famous quote about jobs, the "giant sucking sound from the south," is the equivalent of Bryan's "you shall not crucify this nation on a cross of gold." Like Bryan, Perot offers false hopes and false solutions.

It's not that the pain of working people in America isn't real. When Pat Buchanan says that NAFTA is "an insider's deal among the transnational elite," he expresses the anguish and anger felt by millions of blue- and white-collar Americans at the corporate managers who ordered huge downsizings and layoffs in recent years. While many top-rank managers floated off on golden parachutes, working stiff on assembly lines and in offices found themselves on the slippery slope of downward mobility. Sure they're angry.

Yes, competition creates dislocation, but labor's response to global competition is as misguided as it is self-destructive. Unions are not simply fighting against lower tariffs with Mexico. They are arguing, by extension, that all low-wage

producers are a threat to U.S. jobs and living standards. In fact, unions are really saying that the low wages, poor environmental and safety regulation, and lack of worker rights that inevitably exist in the less-developed world in themselves constitute unfair trade barriers. By that logic, unions would prefer to keep tariffs high—and build them even higher—against imports from all the ex-communist and statist countries that have converted to market capitalism.

And they are not alone. The French are making similar noises about restricting trading to high-wage countries. "The question now is how to organize to protect ourselves from countries whose different values enable them to undercut us," said Prime Minister Edouard Balladur recently.

DEMOCRATIZING MEXICO

That is why the stakes on the NAFTA vote are so high. The French are already balking at signing the Uruguay Round of GATT, which would lower tariffs and further free trade around the world. A "no" vote on NAFTA would undermine the Clinton Administration's ability to complete the GATT negotiations on schedule by yearend.

A "no" also would humiliate the President as he meets with the heads of 14 Asian and Pacific nations on Nov. 18 in Seattle, a day after Congress votes. Many Asian businessmen profess to worry about a Fortress America excluding their products and would like Congress to vote NAFTA down. The more sophisticated leaders, however, realize that any vote in Congress against free trade with a low-wage country is as much a slap at them as at Mexico.

There is a crisis of demand around the world, and the solution is more trade, not less. Anti-NAFTA forces argue that Americans can't compete against cheap Mexican labor, but the truth is that Mexico is sucking up U.S. exports, not just. Exports to Mexico quadrupled over four years, to \$40.6 billion in 1992, as Mexican tariffs dropped.

Mexican President Carlos Salinas de Gortari has cut wage hikes to cut Mexico's 160% inflation rate in 1988 to 9% this year. That done, he has just signed a *pacto* with business and labor raising workers' wages in step with productivity gains. As Mexico's growth speeds up, demand for American goods will increase. Higher wages also will expand the middle class and spur the democratization of Mexico, the way they did in Korea and Taiwan.

Finally, President Clinton deserves high marks for emphasizing what is, after all, a Republican initiative. He was right to recognize that the Democrats need NAFTA. Moderate Democrats who advocate free trade, market solutions to social problems, and smaller, more efficient government would be bludgeoned by the old-line, union-based, tax-and-subsidy crowd should NAFTA fail. That would make the Democratic Party a reactionary force in politics, not a progressive one.

Perot and other critics cite a litany of ills facing the country. But none of these problems would improve if NAFTA fails. Quite the contrary. The evidence of history is convincing. Expanded trade leads to greater prosperity. Congress would be making a huge mistake if it rejects NAFTA.

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hospital administrator to the lab
an – access to the same accurate,

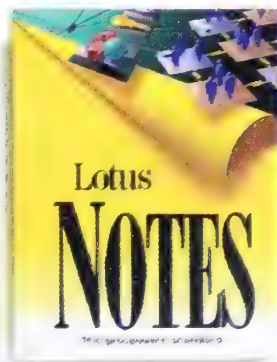
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DRESSED FOR SUCCESS: EAST ASIA'S GREAT LEAP FORWARD IS PRODUCING THOUSANDS OF MULTIMILLIONAIRES AND A BURGEONING MIDDLE CLASS

Special Report

100 ASIA'S NEW WEALTH

The emerging powerhouse of Hong Kong, Taiwan, China, and Southeast Asia—dominated by a network of ethnic Chinese moguls—is creating capital and markets at a speed and scale without historical precedent. Under way is nothing less than a massive shift in the global economic balance of power as Asia catches up with Japan and the West

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TALK SHOW

The people I've talked to in Congress have been nobly motivated.

— President Clinton on representatives who wanted favors in exchange for supporting the North American Free Trade Agreement

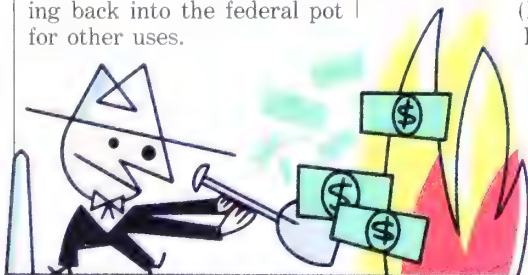
EDITED BY LARRY LIGHT AND JULIE TILSNER

CAPITAL OFFENSES

THE SUPER COLLIDER BUCK GETS PASSED

Fiscal watchdogs rejoiced recently when Congress voted to kill the \$11 billion Superconducting Super Collider and the \$1.3 billion Advanced Solid Rocket Motor. At last, wasteful pork was pared and tax dollars saved.

But don't celebrate the frugality too quickly, taxpayers. Zeroing out the two projects won't necessarily save any money. The reason? It's going back into the federal pot for other uses.



The phantom savings on the Texas-based Super Collider is actually the \$2.2 billion already allocated for spending. (Billions more for the atom smasher would have been appropriated in later years). Where's it going? Although not yet specifically earmarked, there's a strong chance the megabucks will end up in the most old-fash-

ioned pork barrel of them all—water projects.

The money that would have gone to build the six-rocket-booster ASRM project, managed by Alabama's Marshall Space Flight Center, went to the Environmental Protection Agency and the National Science Foundation. The net savings after subtracting contract-termination costs: \$50 million. That's quite a chunk of change.

Upset that their respective states lost out on the Super Collider and the rocket motor, Senators Phil Gramm (R-Tex.) and Richard Shelby (D-Ala.) are trying to fix it so that spending cuts actually go to pare the deficit. This explains Carol Cox Wait,

president of the Committee for a Responsible Federal Budget, would bring "truth in voting." But Senator Robert Byrd (D-W.Va.), who jealously guards his power as chairman of the Senate Appropriations Committee, is balking. Gramm and Shelby need 60 votes to change Senate rules favoring the current setup, and that's unlikely. *Paul Magnusson*



FATHERS AND SONS

THE KID HAD TO AUDITION, YOU KNOW

Sandy Weill's overhaul of his recently acquired Travelers Insurance has become something of a family affair. As part of the reshuffling of Travelers' Hartford headquarters, Primerica Chief Weill is removing Thomas Messmore, the well-regarded

senior vice-president for vestment securities at the ant insurer.

While ousting Messmore has proved jolting enough the Travelers troops, they also grumbling about his placement: Sandy's son, 17-year-old Mark Weill. Officially, Travelers says that Messmore left to pursue "other interests." Chief Investment Officer Robert Crispin says it was his decision that the younger Weill take over Messmore's job—with no input from Sandy. Messmore, 48, a 15-year company veteran, declines to comment, saying, "What's to be benefited by that?" Sandy and Mark are mum, too.

Once the Travelers crowd gets to know Mark, they may be mollified. Primerica insiders say he's a good financial exec: The Columbia University MBA has managed \$3.5 billion for Primerica Life Insurance since 1990. *Chris Ro*

SICK THRIFTS

WHO CAN LIVE ON 17 GRAND A MONTH?

Most people would cheer at the thought of a \$17,000 monthly allowance. Not Thomas Spiegel, who stands accused of spending double what he's allowed for living expenses. After the feds in 1991 seized failed Columbia Savings & Loan,

which Spiegel headed, a court imposed the \$17K spending cap, pending the outcome of Washington's \$40 million claim on him. The government, which is stuck with the \$2 billion tab for the collapse of the Beverly Hills (Calif.) thrift, put Spiegel on the short leash because it doesn't want him dissipating his assets.

But Spiegel, who took in millions from the S&L, has been spending around \$34,000 monthly, says the federal Office of Thrift Supervision. A Spiegel lawyer concedes his client may have overspent, but sums "varies from month to month and to day." In the wake of the OTS complaint, though, he has to ask a court-appointed receiver before he spends another dime. *Kelley Hol*



SPiegel guy's guy

REALITY CHECK

REGULATION LOVERS SAY

that cable-television rates must be controlled by the government. When previous rate rules were lifted in 1987, many cable companies—which usually enjoy local monopolies—socked subscribers with

double-digit increases. A new law, which took effect on Sept. 1, aims to slice rates by an average of 10% and save \$1 billion yearly for viewers. Meanwhile, the Federal Communications Commission has slapped on a rate freeze.

IN REALITY

cable TV is not a natural monopoly. Although the nation is almost completely wired for cable, 40% of viewers manage to exist without it. MTV may be a pleasure for some, but it's not a necessity. Besides, the growing threat to the industry from phone companies and wireless puts in doubt ca-



ble's future in local markets. Moreover, that \$1 billion in subscriber savings is \$1 billion in reduced cash flow to operators, which could reduce investment in the Information Superhighway and slow the development of new technologies. Regulation has a nasty habit of preserving the status quo.

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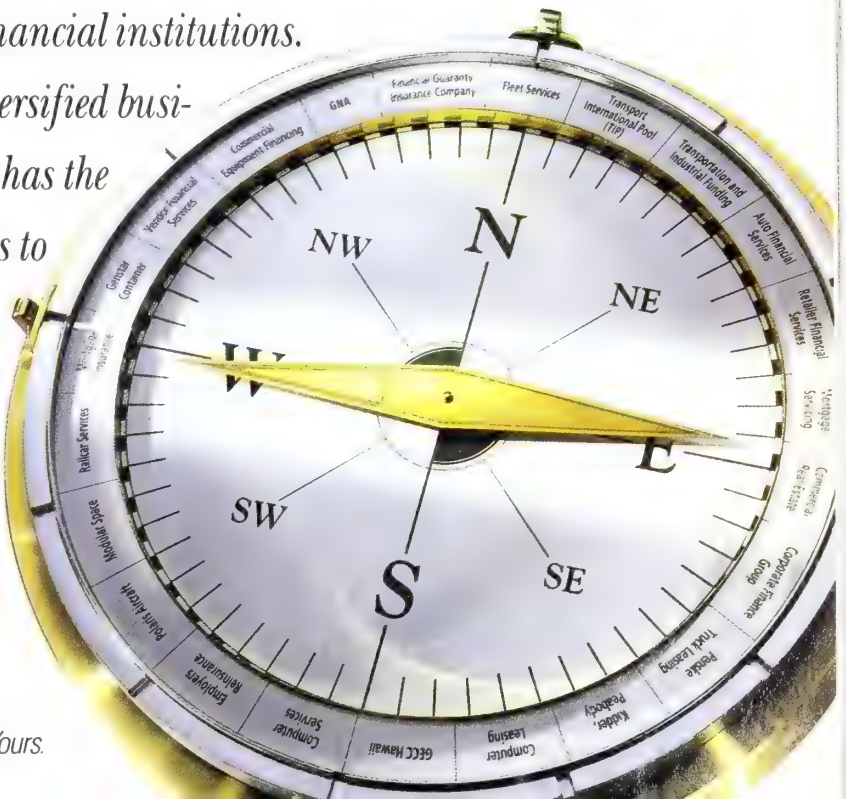
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Up Front

TAX BUCKS AT WORK

FILLING THE WAR CHEST FOR CAMPAIGN '96

Tax revenues may have dried up for the Superconducting Super Collider, but there ought to be plenty for Super Tuesday and the other costly events on the next Presidential election calendar. Not enough people were checking the tax-form box that allocates a dollar to the Presidential Election Campaign Fund, so in a little-noticed maneuver, Congress has jacked up the amount to \$3 (\$6 on a joint return). The change doesn't increase the amount you owe in taxes. It just puts more tax money into the war chest for Presidential campaigns and conven-

tions, effectively reducing government revenue.

Without the increase, the fund could have run dry by the next election, says Herbert Stone, staff director of the House subcommittee on elections. Inflation has whittled away the value of that \$1 since its 1974 debut as a response to the dirty-money outrages surrounding Watergate. Plus, the number of checked-off returns has declined from a high of 29% in 1980 to a low of 18% in 1991.

Why are fewer people willing to contribute to public financing of elections? Says Robert McIntyre, director of Citizens for Tax Justice, an advocacy group: "General disgust." This Watergate reform may have cleaned up Presidential elections some, but it hasn't made them any more popular.

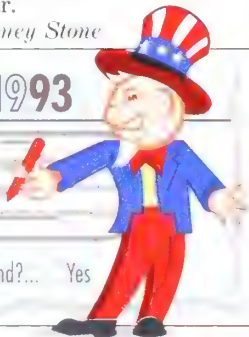
Amey Stone

1040

1993

Presidential Election Campaign

Do you want \$3 to go to this fund?... Yes



IMPRESARIOS

FLOAT LIKE A SAMUELSON, STING LIKE A KEYNES?

Big-haired boxing promoter Don King isn't your usual business-school speaker. But at 63, the flamboyant King figures it's time to share his life's wisdom with fledgling capitalists. So he's on the lecture tour—and not accepting any fee. King recently wowed crowds of whooping B-school students at Duke and Wharton. Upcoming appearances: Tulane, Northwestern, and the University of Texas.

At the Wharton School, where the clang of a bell preceded his talk, King's street-smart panache and worldly experience—he once served four years for manslaughter—were a real education for future MBAs used to dreary lectures on quantitative analysis. "This is not a normal presentation,"

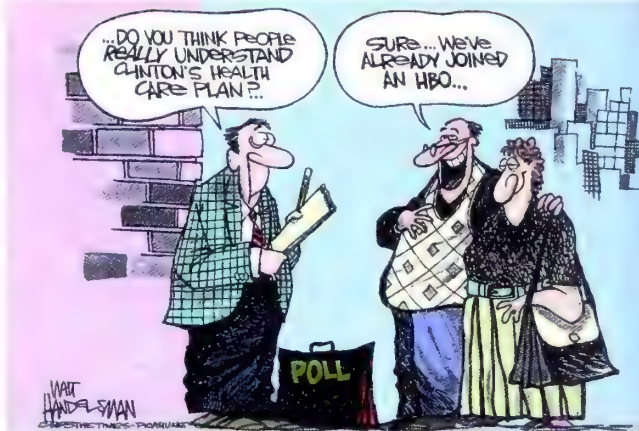
he told the crowd, "because I'm not a normal individual."

Listen to Don King, and you hear how a good entrepreneur doesn't show strain in



KING: Ethnic marketing is key

DRAWN AND QUARTERED



MEDIA LORDS

BLOOMBERG'S MOVE INTO TV NEWS

Michael Bloomberg continues to expand his empire. Coming on Jan. 4: a 15-minute business-news show on public television. The former Salomon Brothers

Bloomberg
FINANCIAL MARKETS
COMMODITIES
NEWS

trader launched his securities-data service in 1981, his news service in 1990. So far, the only one to sign up for TV's Bloomberg Business News is its producer, Maryland Public Television. But that should

change, says Maryland system head Raymond Ho, because the 300 PBS station that now runs his 15-minute A.M. Weather will want something to round out a half-hour.

The new show has a multimedia twist: About one-third of the 31,000 Bloomberg data terminals can tune into still photos and audio from the program. Says Bloomberg: "The sound's not the greatest quality, but you can listen to it."

THE BIG PICTURE

United Way time is here again, but is it welcome? Donations in 1992 dipped for the first time since World War II because of corporate layoffs and a perks scandal that ousted the charity president. While UW says it is optimistic about 1993, many regional chapters have lowered their campaign targets or kept them at 1992 levels.

TOTAL UNITED WAY INCOME



UNITED WAY GIVING SLIPS AWAY

DATA: UNITED WAY OF AMERICA, THE NONPROFIT

FOOTNOTES

Number of multimedia exhibitors at Comdex, the computer-industry conclave, in 1990: 101. In 1993: 383.



At The Travelers we realize the contribution your company's employees make. This is why we help our customers reduce loss costs by focusing on the human side.

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TheTravelers
AMERICA'S UMBRELLASM

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SOME RAIN ON SOLAR ENERGY'S PARADE

The glowing future for solar energy technologies may indeed be true, but it is difficult to imagine that solar and the renewables will ever contribute more than a few percent of our electrical needs ("The sun shines brighter on alternative energy," Science & Technology, Nov. 8). Federal projections indicate that by the year 2010, we will need the equivalent of an additional 130 large nuclear plants, and that is after massive efficiency improvements. This does not include replacing aging fossil-fueled plants, which will be necessary since over half of our coal-fired stations are more than 30 years old.

Solar has a role to play in remote locations, as you have noted, and in providing peaking capacity to meet demand on the hottest summer afternoons. Base-load power from solar would, however, require massive energy storage facilities easily doubling the energy cost. The only conceivable means for meeting the growing demand for power is with the two most abundant domestic energy sources, coal and nuclear.

Finally, a wind turbine having a 90-foot-tall tower with 34-foot blades is quite impressive. Living near endless acres of nine-story towers with its rotors whistling in the wind might be considered a significant environmental impact. As usual, nothing in energy comes without an environmental price.

Theodore M. Besmann
Research Group Leader
Oak Ridge National Laboratory
Oak Ridge, Tenn.

VERSE FOR MARKET-WATCHERS

Many in the financial news media, both TV and print, regularly use the expression "profit-taking" in reporting a dip in stock prices. Considering transaction costs, stock trading is at best a zero-sum game. One wonders then what is the appropriate term when prices rise. To those who wittingly or unwittingly aid and abet the brokerage industry, I dedicate these lines:

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*I'm told that when a stock price drops
It's due to "profit taking."
Well, taking profit's really tops,
Since that means money-making.
Let's hope next time stock prices fall
They do so most emphatically.
We'll make more money after all,
And do it automatically.*

William F. Humm
Los Angeles

A CLEARER PICTURE OF KODAK'S KEPS

Like Eastman Kodak, our parent company, KEPS, is excited about the arrival of George M.C. Fisher as Kodak's new chairman. However, your article "Kodak: Shoot the works" (Top of the News, Nov. 15) may have created some confusion about KEPS. You referred to KEPS as a publishing system; it is actually a company wholly owned by Kodak. We research, sell, and service electronic color-imaging equipment for use in press preparation of color images and page layout for the printing and publishing industry.

More important, your statement that KEPS doesn't yet link into Kodak's Photo CD standard is untrue. KEPS has been a pioneer in the use of Photo CD for electronic imaging. In fact, the company's PCS100 color workstation was used at some Photo CD beta test sites in order to convert Photo CD images into the color separations necessary to produce printed color images, and some of our customers are currently using Photo technology from KEPS for their color production.

John Florent
General Manager and Vice-President
KEPS Inc.
Billerica, Mass.

THE NUCLEAR AGE DILEMMA IN CALIFORNIA

Your recent article "Has US Ecology cleaned up its act?" (Top of the News, Nov. 8) ignored the serious business and public-health issues involved in California's long-delayed low-level radioactive waste (LLRW) disposal site.

California's tardiness in establishing the site has forced biomedical com-

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**You Can Play Around
With Windows NT On Another
Microprocessor.**

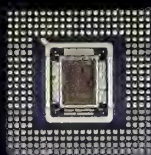




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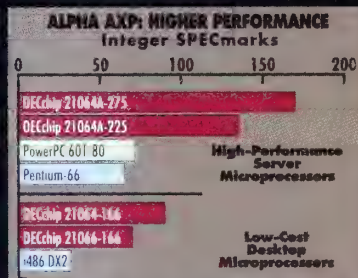
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Readers Report

CORRECTIONS & CLARIFICATIONS

In "The wings of Ryder" (Inside Wal Street, Nov. 15), the affiliation of analyst Paul R. Schlesinger should have been given as Donaldson Lufkin & Jenrette. His correct earnings estimates for the new Ryder System are \$1.40 a share for 1993, \$1.80 for 1994.

In "Meanwhile, in the other South" (Cover Story, Sept. 27), the Institute for Southern Studies, based in Durham, N.C., was described as a "labor-funded advocacy group." The organization says most of its funding comes from church groups and foundations and less than 1% is from labor.

nies, universities, research institutions, hospitals, and utilities to either store their waste on site or ship to a South Carolina site that becomes unavailable less than a year. The lack of a disposal site is causing low-level radioactive waste to pile up in hundreds of urban locations, is threatening research programs, and is causing biomedical companies and prominent researchers consider relocation or expansion in states that offer a disposal site.

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David F. Ha
President
Biomedical Industry Council
San Diego

NO 'GAPING HOLE' IN MACROECONOMICS

Your commentary "Lost in the wilderness of economic theory" (Top the News, Oct. 25) suggests that the fact that none of the last several Nobel prizes in economics went to macroeconomists "reflects the current dismal state of macroeconomics." But this analysis presumes that the economics prize, like the peace prize, honors the most important recent advances. In fact, the Nobel prize in economics is awarded only late in a scholar's career, and as a result honors work done decades earlier, or any rate, a line of research initiated decades earlier. Thus, the recent Nobel prizes reflect not the current state of economics but its state in the 1960s.

In the 1940s and 1950s, the most important work sought to reconstruct the core areas of economics—including macroeconomics—using more sophisticated analytical methods, and most of the



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Maria Kaffa, Controller of Organon and Organon Teknika, Greece:

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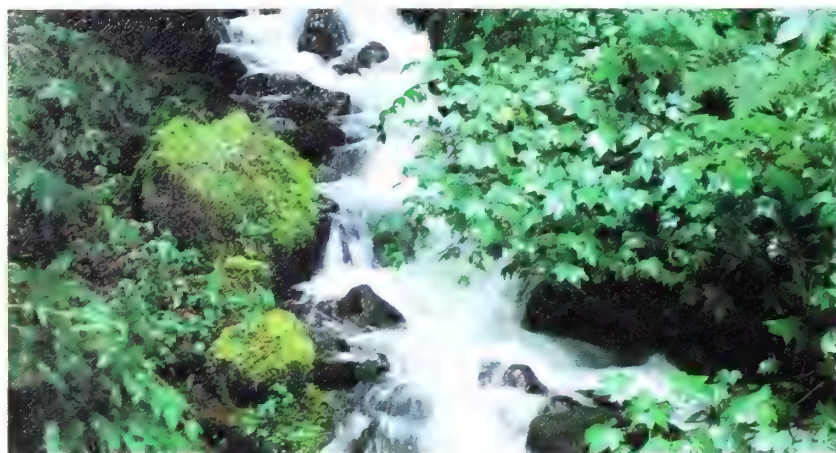
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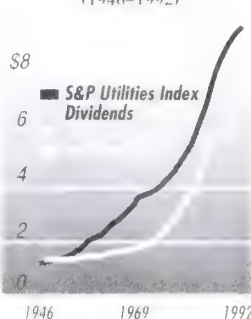
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Readers Report

bel prizes awarded 10 to 20 years ago honored work of this kind. But by the 1960s, the basic core of economic theory appeared to be on solid ground, and ambitious young scholars had to seek challenges elsewhere. Many found them by applying to other areas of inquiry the analytical methods that had been so successful in economics. The economic analysis of law, the New Economic History, and Gary Becker's economic analysis of social problems date from this period, and does the integration of previously peripheral subjects like finance into the core of economic theory.

The last several Nobel prizes have gone to the innovators in areas like these. But the fact that the most creative young minds in the 1960s did not make their mark in macroeconomics is best explained not by the presence of a gaping hole at the center of economics but rather by the supreme confidence of macroeconomists at that time.

In the 1970s, of course, the complacency of macroeconomists about the foundations of their subject was shattered, as the article notes. But as a result, many of the best young economists again chose to work in that area. Their work will surely result in further Nobel prizes for macroeconomists in the future—but only when the Nobel committee is ready to honor a younger generation and its concerns.

Michael Woodford
Professor of Economics
University of Chicago
Chicago

JURIES AREN'T GETTING MORE REASONABLE

Examining the civil justice system by looking at the small fraction of cases that end up going to verdict (let alone trial) is like studying the proverbial iceberg by only looking at its tip ("Should business be afraid of juries?" Legal Affairs, Nov. 8).

The vast majority of cases filed against businesses never get to trial. Reasonable businesspeople will simply not allow any but the most egregious cases to go down that very expensive and very dangerous road to the courthouse. There are fewer and lower verdicts today because, for the most part, only the really frivolous cases go to trial, not because juries are getting more reasonable.

Chris Gullone
Rochester Hills, Michigan

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax (212) 512-4721. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

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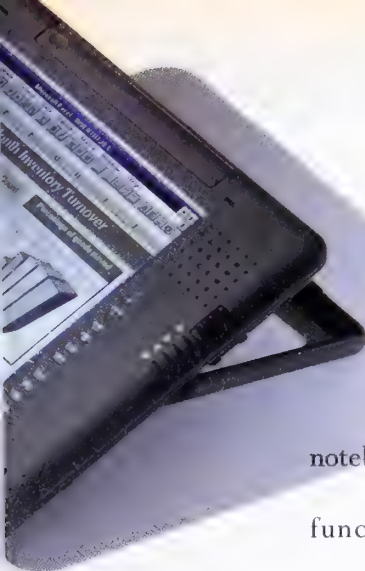


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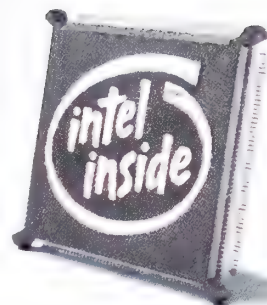


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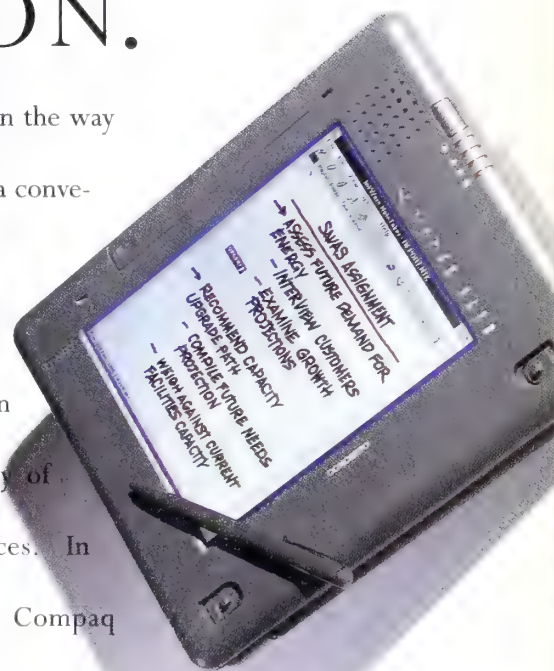
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IT AIN'T AS EASY AS IT LOOKS: TED TURNER'S AMAZING STORY

By Porter Bibb

Crown • 468pp • \$25

UP NEXT: THE EXPLOITS AND ESCAPADES OF TED TURNER

If Ted Turner writes the way he speaks, don't hold your breath waiting for his autobiography. On the rubber-chicken circuit, Turner displays a rambling style that veers from brilliance to banality and back, often leaving audiences slack-jawed. For real insight into the man behind Cable News Network, one must rely on observers who can cut through his histrionics. Porter Bibb makes a game effort in *It Ain't As Easy As It Looks: Ted Turner's Amazing Story*, the most recent biography of Jane Fonda's third husband.

Bibb doesn't offer any stunning revelations about Turner, whose journey from champion yachtsman to media mogul is one of the more exhaustively documented tales in American business. But he delights in his subject, and his enthusiasm is contagious. Even when the

reader knows what's coming next, it's lots of fun getting there.

What makes the book stand out is Bibb's lucid explanation of Turner's complex business dealings. To fully appreciate Turner, it helps to understand how he cobbled together a communications empire despite regular brushes with insolvency and fierce competition from better-funded rivals. As an investment banker who specializes in media, Bibb offers a cogent primer on cable TV. And he makes sense of such byzantine episodes as Turner's unsuccessful bid for CBS Inc. in 1985 and his risky purchase of Hollywood studio Metro-Goldwyn-Mayer Inc. a few months later.

But Bibb, once a *Newsweek* reporter, also knows better than to let numbers bog down a good story. He's at his best recounting juicy tales of Turner's life

not just as a businessman but also as sportsman and ladies' man. Since Bibb didn't get Turner's cooperation, his information is mostly secondhand. But he no Kitty Kelley; his style is more camp than caustic. For example, Bibb describes a wealthy female companion Turner's as a "statuesque French blond with an impressive exchequer."

Bibb first encountered his subject during Turner's 1974 campaign for the America's Cup, and he chronicles Turner's sailing exploits with a zeal and affection reminiscent of George Plimpton. In the 1979 Fastnet race, for example, we see Turner at his most courageous and crass. He won the British ocean race in a storm that killed 22 sailors only to spoil his victory with a flimsy speech that ignored the tragedy.

For all its breeziness, *It Ain't As Easy As It Looks* has a sober subtext. Bibb wants to explain how the emotionally stunted son of an even more unstable father could grow up to become a baron of the Information Age, and more recently a self-appointed ambassador for causes such as saving the environment. In that regard, the author doesn't fully succeed.

Like so many biographers of prodigiously successful men, Bibb traces the

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ject's drive to his relationship with his father. portrays Ed Turner, made a tidy fortune ing billboard ads, as inspiring role model.

Bibb says the elder ner also heaped hor- emotional and physi- abuse on Ted. As an mple, he reprints a hing letter from fa- to son after Ted an- nced he planned to lyclassics at Brown versity. "I suppose ybody has to be a o of some sort," Ed te, "and I suppose will feel that you are

nguishng yourself from the herd becoming a classical snob."

espite all this, Ted worshipped his er and was devastated when Ed ed a gun on himself in 1963. Bibb ests that Turner inherited his fa- s manic-depressive tendencies and s that early in his career, he even a silver revolver in his desk draw- or a possible suicide. Only after er began taking lithium in 1985 did ood swings modulate.

here Bibb falls short is in dissecting

Bibb offers juicy personal tales and a lucid look at Turner's complex business dealings



the more subtle aspects of Turner's personal development. To wit: How did this brilliant but boorish youth, who got kicked out of Brown and drank his way through his campaigns for the America's Cup, turn into a conscientious citizen who now describes his life as a "war between the forces of good and evil"?

Turner has, of course, met a dazzling array of people in his 55 years. Bibb says he has learned from many: concern for the environment from Jacques Cousteau, a global perspective from Fi-

del Castro, and so on. It takes more than influential friends, though, to change a man from a philanderer who had no time for his children into a model husband who gathers his brood for reunions at his Montana ranch. Bibb doesn't really plumb that inner journey.

As a result, *It Ain't As Easy As It Looks* ends tentatively. Does Turner aspire to even grander goals—the Presidency, say? Or is he content to breed buffalo and follow Fonda further into Holly-

wood? In the months since Bibb completed his manuscript, Turner has snapped up two more film studios. When your target moves that fast, any biography is necessarily a rough draft.

The definitive portrait of Turner will probably have to wait until he reinvents himself once or twice more. In the meantime, Porter Bibb serves up a tasty appetizer. Not to mention some pretty good dish on Jane.

BY MARK LANDLER

Landler is BUSINESS WEEK's media editor.





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HOW TO TACKLE CRIME? TAKE A TOUGH, HEAD-ON STANCE

BY GARY S. BECKER



Contrary to some widely held views, more police on patrol, quicker trials, and more certain punishment are effective deterrents to crime. At last, the political will to make these changes may be at hand

Fear of crime in the streets, at home, or at school has an enormous impact on the everyday life of urban residents in the U.S., and increasingly on suburban residents as well. Yet politicians only recently have begun to place crime at the top of their agendas.

The anticrime bill now moving quickly through the U.S. Senate authorizes spending \$22 billion, including \$9 billion to help cities hire up to 100,000 additional police and \$6 billion for federal high-security prisons and other correctional programs. Other provisions ban assault weapons, require mandatory life sentences for certain repeat offenders, and expand the death penalty to cover additional crimes.

The book *Crime and Human Nature* by James Wilson and Richard Herrnstein summarizes many studies showing that appropriate punishments—especially raising the certainty of punishment via more police, quicker trials, and higher conviction rates—are effective in reducing the number of criminals who rob, steal, or rape. Still, some observers question whether punishment has all that much effect on crime. These critics point to an apparent large increase in violent crime during the 1980s, a decade in which the number of people in state and federal prisons almost trebled.

According to data compiled by the FBI from police reports, crimes of violence and crimes against property grew at a rapid rate in the 1960s and 1970s as the certainty of punishment plunged, partly because of an expansion in the rights of those accused of crime. But in the 1980s, the Supreme Court toughened its stance on criminal rights, yet crime appeared to continue to increase.

IDEAL JURORS. But more accurate data than police reports exist to measure crime. The National Crime Surveys of the Census Bureau ask households whether they have been victims of crime. These data show much higher crime rates than the FBI statistics do, but they also show that per capita violent crimes declined by 10% since 1979, although they have grown a little during the past few years. Crimes against property fell by more than 25% after 1979. So the Supreme Court's retreat on criminal rights during the 1980s and the corresponding growth in the prison population may have reduced crime.

Many politicians in the U.S. have shrunk from calling for a tough approach on crime for fear of sounding racist, since African Americans and Hispanics commit a disproportionate share of felonies. But it is just these groups who suffer the most from crime, and polls consistently show that they want more police protection and tougher treatment of criminals.

A federal prosecutor once told me that he prefers to have older, employed, urban blacks as jurors in criminal cases, because they are at least likely to show leniency toward defendants after having experienced so much crime firsthand.

The attitudes revealed by these polls have been reflected in recent local and state elections, with candidates responding more aggressively to crime. Both blacks and whites are running for mayor and for governor in Atlanta, Detroit, Los Angeles, New Jersey, Virginia, and elsewhere promised to add many more police to patrol streets. Voters in the state of Washington approved a proposal to make life sentences mandatory for criminals convicted a third time for a serious offense. It is not surprising that politicians are taking a tougher stance on crime. The puzzle is that it took them so long.

HOODLUM NETWORKS. Police, courts, and prisons account for only 6% of state and local government expenditures and less than 1% of the federal budget. Special interests that command agricultural supports, entitlements, and other programs dominate such a large share of government budgets that little is left over for such essential services as crime control, which affects everyone.

More police and greater punishment are sometimes considered to be ineffective because criminals are said to be unaware of their chances of being caught and punished. But this argument confuses what law-abiding citizens know about these matters with what hoodlums know. Information spreads rapidly through their network when there is a police crackdown. They know firsthand that young offenders are usually not punished except for serious crimes. And the grapevine tells them that Judge X is tough on crime, while Judge Y is not.

Some intellectuals and politicians continue to justify paying less attention to police and punishment because they believe the highest priority should go to rehabilitation of criminals and amelioration of the root causes of crime: racism, unemployment, unstable families, and poor schools. But the evidence is overwhelming that it is very hard to rehabilitate habitual criminals.

Although root causes are important, social policy can do little in the short run to reduce the number of broken families, racists, bad schools, or people with poor job skills. The case for more police and additional punishment rests on the immediate impacts the measures can achieve. They do not take a generation to become effective. They can reduce crime straightaway.

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

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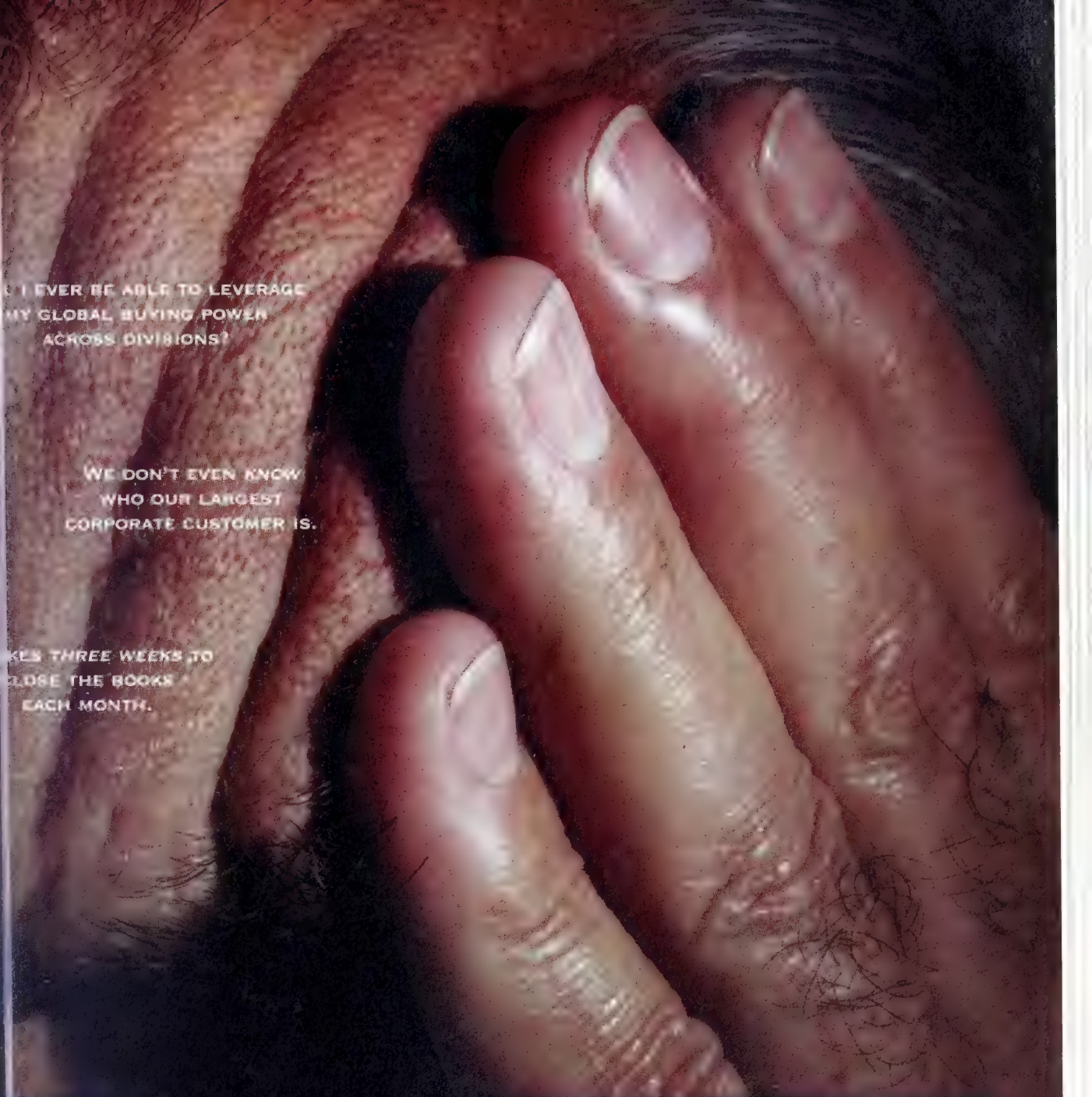
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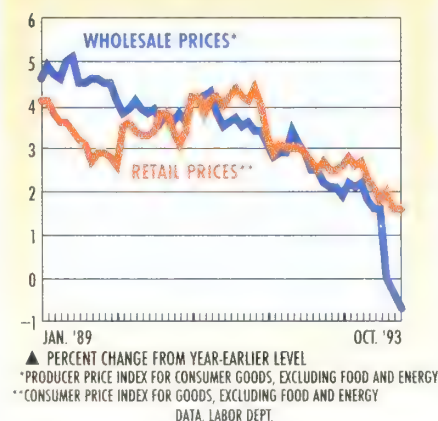
BY GENE KORETZ

DESPITE UGLY RUMORS, INFLATION IS DOWN FOR THE COUNT...

The financial markets seem to think the Federal Reserve will soon tighten to forestall a speedup of inflation. But economists at Merrill Lynch & Co. are skeptical. "The Fed's goal of price stability has been achieved at the wholesale level and is getting closer at the retail level," says Merrill's Bruce Steinberg.

Key price measures confirm this assertion. On the wholesale level, October's drop brought the producer price index (PPI) down to about where it was 12 months earlier. Similarly, despite an uptick in October, the consumer price index (CPI) came in only 2.8% above its year-earlier level, and the core CPI (excluding food and energy items) regis-

CONSUMER GOODS: INFLATION'S VANISHING ACT



tered its smallest 12-month increase in more than two decades.

The trend is most apparent in consumer goods, where wholesale prices have declined by nearly 1% in the past year, and retail prices have risen a minuscule 1.6% (chart). At the same time, consumer-services inflation, which was clocked at more than 6% a few years ago, has dropped sharply to under 4%.

The big question, of course, is whether this latest inflationary slowdown can persist if the economy picks up more steam. Steinberg thinks it can. He notes that "underlying inflation fundamentals remain benign." Hourly compensation, for example, is up just 3.2% over the past year, while productivity during the recovery has been growing at a healthy 2.3% annual rate—"a combination that is smothering cost pressures."

Moreover, since the end of the previ-

ous expansion, in 1990, the labor force has grown by 4.1 million, compared with a mere 700,000 rise in employment. "At current rates of job growth," says Steinberg, "it could take up to six years to reabsorb the overhang."

Merrill Lynch sees 3% growth for next year, a pace consistent with sluggish inflation. But even if activity heats up, it says, the productivity gains produced by strong capital spending and corporate restructuring suggest that price pressures will remain modest for at least another year or two.

... BUT IT MAY RAISE ITS HEAD BRIEFLY EARLY NEXT YEAR

If Merrill Lynch is right, subdued inflation will pull long-term bond yields below 6% next year. But that doesn't mean the path to lower interest rates will be smooth. Indeed, economist Kevin Logan of Swiss Bank Corp. is betting that inflationary fears will keep rates from declining much until next spring.

The reason is a consistent seasonal pattern plaguing the price indexes. Although these measures are adjusted for seasonal variation, Logan notes they show higher inflation from December to April than during the rest of the year. That has been true for the core CPI, for example, in 10 of the past 12 years, with the difference averaging about three-quarters of a percentage point.

This pattern was particularly pronounced earlier this year, when 4%-plus inflation surfaced briefly, in the wake of last year's fourth-quarter surge in economic activity. And if the pattern holds, notes Logan, inflation could speed up to a 3.7% annual pace early next year. Given the skittishness of the financial markets and the likelihood of a strong final quarter this year, interest rates are not apt to move lower until developments prove that the coming pick-up in inflation is just another seasonal flash in the pan.

MIXED SIGNALS FROM CONSUMERS: UNLOCKING THE MYSTERY

A phenomenon that psychologists call cognitive dissonance could well afflict some economists these days. On one hand, household income growth, consumer confidence, and expectations about the future—especially jobs—remain depressed. On the other, real consumer spending has forged ahead, with outlays

rising at a 4.2% clip last quarter and 3.5% pace over the past year.

Some economists have resolved the inconsistency between consumer sentiment and behavior by predicting that consumption is headed for a fall. But others believe the spending surge reflects an improvement in economic conditions that is real, though largely unrecognized in the media.

Specifically, Charles Lieberman of Chemical Securities Inc. notes that Labor Dept. official recently acknowledged that payroll employment may be underestimated by some 250,000 jobs. Evidently, the "bias adjustment," which the department adds to the payroll numbers to reflect job creation by new businesses, has been too low over the past year. And if the payroll numbers are too low, so is the estimate of personal income, which is based on payroll data.

One development that points to an improving job climate is the latest quarterly survey by the National Federation of Independent Business. Although small-business optimism is low, it did rise slightly in October, and the NFIB spies "signs of positive economic activity among the nation's small businesses." In particular, such companies have now reported small net increases in hiring for both the second and third quarters, the first quarterly gains since 1990.

FEWER WOMEN AT WORK MAY MEAN BAD TIMES FOR PREMIUM BRANDS

A demographic sea change is having profound effects on the economy, asserts economist Richard F. Hokenson of Donaldson, Lufkin & Jenrette Securities Corp. After rising sharply for nearly three decades, he notes, labor-force participation rates for women under 45 have been declining for several years, while rates for women 25 to 44 have leveled off.

Rather than a short-run reaction to a sluggish economy, Hokenson thinks the reversal is a lifestyle change that is likely to persist (it is also occurring in Western Europe), as women seek more balance between marriage, children, and paid work. Whatever the cause, the trend from dual-earner households to single-earner ones—which are more price-sensitive—may help explain the current woes of brand-name products and the lagging sales of high-priced apparel for working women.

"The growth of households with more time and less money," predicts Hokenson, "will reinforce rising consumer demand for good values."

NOT ONLY A MERRY CHRISTMAS, BUT A HAPPY NEW YEAR

Have you started your Christmas shopping yet? Judging by the recent strength in retail sales, many consumers are getting a jump on the holidays. Ringing cash registers are another in a bevy of good signs for fourth-quarter economic growth. More important, unlike last year, the economy's cheery afterglow likely to linger well into the new year.

Why won't growth fade? For starters, businesses headed into 1993's final quarter with very lean inventories. Retailers will have to restock their shelves after the holiday season, helping to sustain the new momentum in industrial production.

Moreover, barring blizzards, floods, or other such disasters that hit the economy in 1993, demand will not collapse. Business investment in equipment, a leader in this expansion, may be slowing, but it's downshifting from a sprint to a run. Meanwhile, low interest rates and further growth in jobs and incomes will continue to support the new strength developing in housing and autos (charts).

The fourth quarter is off to a strong start. In October, manufacturing output had already grown 5.6%, at an annual rate, above the third-quarter level. Price-adjusted retail sales stood 4.8% higher. And housing starts were up a 30% rate. All this suggests growth in real gross domestic product of better than 4% this quarter.

DON'T BET ON A FED HIKE IN RATES In fact, there is a new question in the outlook: How much growth will the Federal Reserve tolerate before it feels the need to hike interest rates in order to ward off inflationary pressures? Perhaps more than the markets currently believe. Nearly all measures of economic slack show a lot of room for noninflationary growth in coming quarters.

That's especially true for the labor markets. Beginning with the data for January, 1994, the Labor Dept. will use new survey techniques to measure joblessness. A study's worth of experimenting suggests that the rate is about half a percentage point higher than the current 5.6%. Wage pressures typically do not begin to grow until the jobless rate nears 6%. The new data mean that this is now further in the future, even at the recently improved pace of job growth.

However, the unlikelihood of better-than-4% growth in

back-to-back quarters is the main reason most analysts expect no Fed action from its Nov. 16 meeting—or anytime soon. A survey of 35 economists by McGraw-Hill Inc.'s MMS International shows a 1 in 4 chance of a hike in the federal funds rate by the end of the first quarter.

Some slowdown next quarter is a good bet because of defense cuts, a widening trade gap, and corporate restructuring. Also, consumers might slow to a jog after their strong run in 1993, especially amid uncertainty over health care and taxes. But while growth may slow, solid fundamentals will prevent a collapse.

CONSUMERS ARE BUSY ON TWO KEY FRONTS

The biggest reason why the economy will not tank next quarter is the strength in housing and autos. Those industries have always been the economy's bread and butter because they support a broad range of secondary markets from sofas to spark plugs.

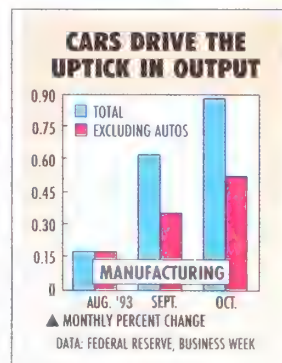
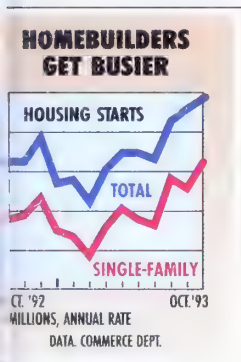
By all measures, housing demand continues to strengthen. The National Association of Realtors' index of housing affordability for the third quarter was the highest in 20 years. And after super sales gains in September, builders are getting busier.

Housing starts rose 2.7% in October, the third advance in a row, to an annual rate of 1.4 million. That pace, the highest since February, 1990, was fueled by a 5.8% jump in the key single-family-home sector. Single-family starts rose to 1.22 million, the most in more than six years.

In addition, the renewed interest of consumers in U.S.-made cars and trucks is supplying much of the fuel for the rebound in manufacturing. Output at the nation's factories, utilities, and mines jumped 0.8% in October, the largest increase in nearly a year. Output in manufacturing alone surged 0.9%, following gains of 0.6% in September and 0.1% in August. A 7.3% boost in production of motor vehicles and parts accounted for about half of the overall October rise.

But it's more than just autos. Output of other consumer durables jumped 1.3%, led by big gains in appliances and furniture. Output of business equipment scored a 1.4% advance, on top of September's 1.3% rise. Autos helped those gains, but production of information processing equipment also continued to increase strongly.

The upswing in output means that U.S. industry is



Business Outlook

using more of its capacity. The operating rate rose to 82.4% in October. That's closing in on the mid-80s reading that has been related to past inflation pickups. However, with imported goods now grabbing a record 24% of domestic demand, U.S. capacity readings alone are much less indicative of price pressures than are measures of global capacity, which is quite plentiful right now.

STORES GET AN EARLY XMAS PRESENT

With demand already picking up, manufacturers won't despair if you're still working on that gift list. One reason: Retailers didn't go overboard on their holiday inventories this year. So stores are unlikely to suffer a merchandise hangover in January, as they did last year. That means new orders for goods should keep flowing to the factory sector in the first quarter.

Parking spaces certainly were hard to find at shopping malls in October. Retail sales jumped an unexpectedly large 1.5% last month. Car dealers, department stores, and gasoline stations all posted huge gains. Price hikes explain part of the rise, especially for gasoline. But even after adjusting for inflation, retail sales advanced for the seventh consecutive month (chart).

Merchants were busy early this month as well. U.S.-made cars and light trucks sold at a 12.4 million annual rate in early November, not much below the stellar 12.6 million pace for all of October. And the *Johnson-Redbook Report* says that department-store sales in the first two weeks of the month were up 1.4% from October.

In addition, both retailers and consumers are optimistic about yearend shopping, according to a survey done by Deloitte & Touche. The survey found that 50% of retailers expect to record higher sales this holiday season and

that consumers plan to spend 5% more on gifts this year than last.

Stronger consumer fundamentals explain why there will be more presents under the tree. Job and income growth look better, and consumers have refinanced mortgages and paid off old debts, thus freeing up extra cash. In addition, the \$6.7 billion surge in installment debt in September suggests that households feel comfortable with using their credit cards again.

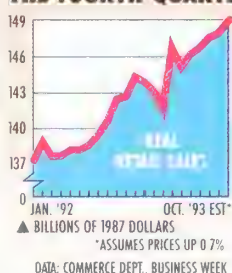
Steady job growth, in particular, is why consumers won't desert retailers next year. Factory payrolls, which have already shrunk by 200,000 jobs this year, may finally have hit bottom. And because factories may have reached the limit on how much more output they can get by extending worktime alone, hiring looks likely.

That's true because lean inventories should keep factories busy in coming months. In September, business inventories rose 0.3%, while sales increased 0.8%. That pushed down the ratio of business inventories to sales to just 1.45, the lowest reading in 12 years (chart).

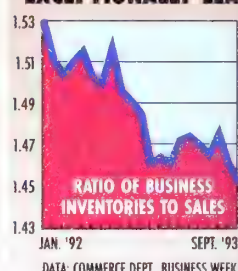
Store inventories alone grew by a bigger 0.8% in September. Most of the rise, though, came at retailers such as department stores that posted strong October sales, so part of the inventory was probably sold off last month. For the entire retail sector, the ratio of inventories to sales looked manageable in September.

It isn't just low inventories, though, that argue for sustained growth next year. The same fundamentals that are fueling holiday shopping also make the case for steady rise in consumer demand in 1994. Add in the lift from homebuilding and capital spending, and it's easy to see why the economy won't dim even after your loved ones have opened their gifts.

CONSUMER LEAP INTO THE FOURTH QUARTER



INVENTORIES LOOK EXCEPTIONALLY LEAN



THE WEEK AHEAD

FEDERAL BUDGET

Monday, Nov. 22

The Treasury Dept. is expected to announce a budget deficit of \$45 billion for October, the first month of fiscal 1994. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. The expectation for October is slightly better than the \$48.8 billion gap a year ago. In fiscal 1993, higher revenues and lower government outlays combined to push the federal deficit down to \$255 billion—almost \$60 billion below early-1993 forecasts. Because of the Clinton deficit-reduction plan, tax revenues will continue to climb in 1994 while defense cuts will hold down overall federal

spending. As a result, the government deficit in 1994 could fall below \$225 billion for the first time since 1990.

INITIAL UNEMPLOYMENT CLAIMS

Wednesday, Nov. 24, 8:30 a.m.

New claims for state unemployment benefits probably stood at 340,000 for the week ended Nov. 20. That would be below the 354,000 filed in the week of Nov. 6—the highest number of claims in three months. Layoffs continue in the economy, so filings have been trending higher in recent weeks.

DURABLE GOODS ORDERS

Wednesday, Nov. 24, 8:30 a.m.

New orders taken by durable-goods manufacturers probably rose 1% in Oc-

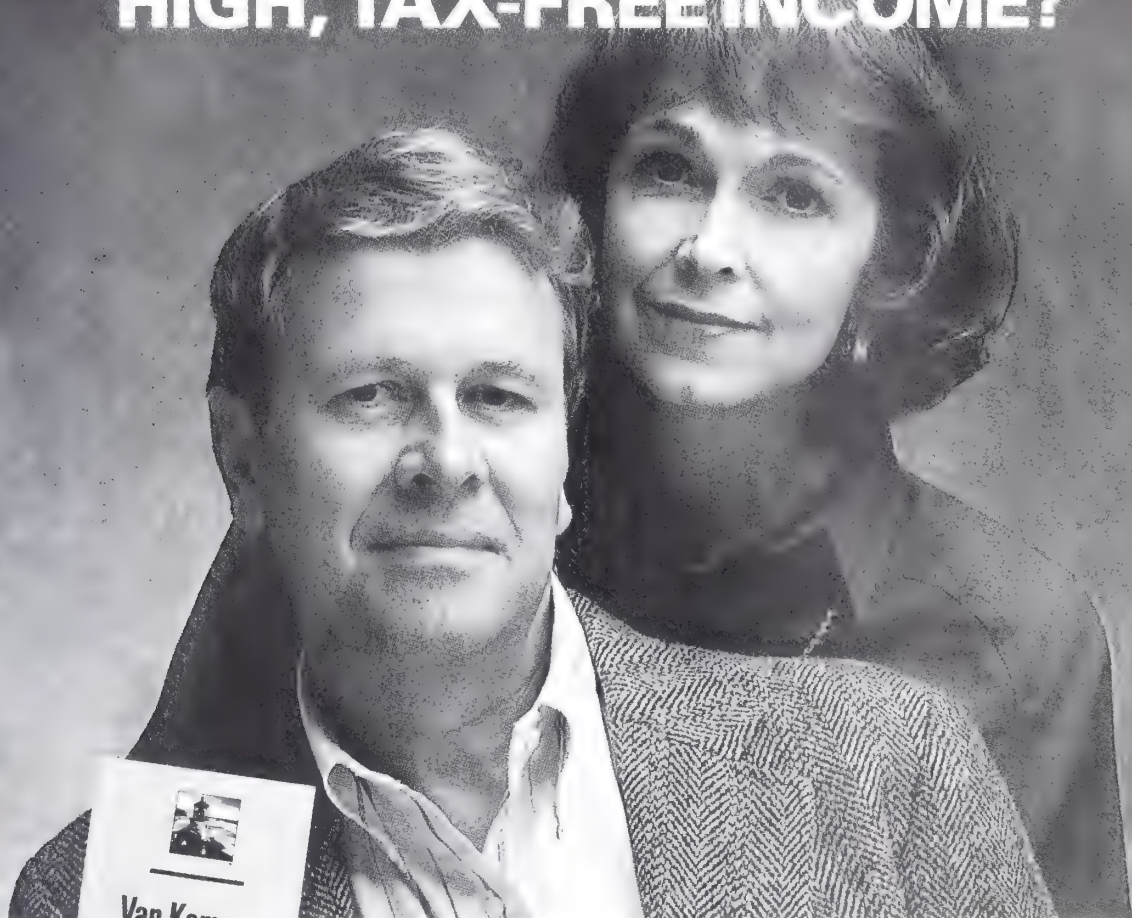
tober, forecast the MMS economists. so, that would be the third consecutive increase in orders, including a 0.7% advance in September. Demand for new autos and trucks will lead the overall gain. However, unfilled orders in October probably continued to slide for the eighth straight month.

CAR SALES

Wednesday, Nov. 24

Sales of domestically made new cars and light trucks probably fell back to an annual rate of 12 million in mid-November, following a 12.4 million pace early the month. Vehicle sales hit 12.6 million in October, in part because low inventories in September meant some buyers had to wait for delivery.

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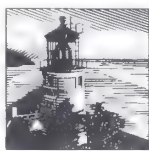
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SWEET VICTORY

THE NAFTA WAR IS WON. NOW, CLINTON MUST MEND FENCES

"They laugh that win."

—William Shakespeare, *Othello*

By any measure, President Clinton's victory in the fight for House approval of the North American Free Trade Agreement ranks as a triumph for his fledgling Presidency and the forces of internationalism. But look beyond the congratulatory whoops of White House lobbyists, and you may spot a few pained smiles from weary Clintonites. That's because the White House is coming to realize just how much political blood was spilled in the nasty and divisive NAFTA slugfest.

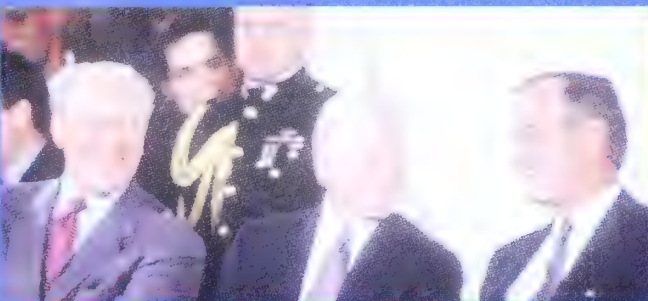
Although Clinton's win is impressive, the battle over NAFTA created deep rifts in the Democratic coalition. The bitter debate inflamed class and ethnic hostilities, pitted labor against management, and set New Democrats against their liberal brethren. Says Democratic pollster Alan Secrest: "It will take a long time for the wounds to heal." Just as bad, the protectionist and isolationist sentiments voiced in the debate could leave U.S. allies with continued worries about America's resolve to open global markets.



THE TACTICS THAT LED TO CLINTON'S BIG WIN

JULY THE GO-AHEAD

Overriding objections from some advisers, Clinton tells his Cabinet he plans to push for NAFTA, a Bush Administration initiative.



SEPT. 14 BIG GUNS COME OUT

Clinton lures out former Presidents to show bipartisan solidarity for the trade accord.

OCT. 19 BIPARTISAN HOOK

The President assures Representative Peter King (R-N.Y.) that he'll "personally repudiate" any Democratic challenger who

uses King's support of NAFTA against him in next year's elections. Clinton later extends pledge to all Republican House members who vote "aye."

OCT. 27 GOODIES GALORE

The Administration promises Representative E. Bonior (D-Calif.) that border cleanup money from establishment of a North American Development Bank can be used to help small businesses hurt by the agreement. message—that lawmakers get favors for a "yes" vote sets off a vote bazaar.

One permanent casualty of the titanic NAFTA war was President Clinton's image as a Washington outsider poised to alter business-as-usual politics in Washington. Forced by members of his own party to wheedle votes with a raft of concessions, running the gamut from petty to the protectionist, Clinton had to resort to the back-room dealing that many independent voters find so horrid. "By setting the stakes so high on NAFTA, they set themselves up for a lot of problems," says political analyst Kevin Phillips.

LL-COURT PRESS. In the waning hours before the vote, the bargaining got down and dirty indeed, as Clinton put together a majority vote by vote and interest group by interest group. Five precious votes were won by a threat to crack down on Canadian wheat subsidies. A promise to shield U.S. textile manufacturers from cheap imports won four southern votes. Florida Republicans Tom Ivin and Porter J. Goss were won over by last-minute deals to protect Florida citrus and sugar growers from a surge of Mexican exports. The offer of more money for minority business development got Representative Floyd H. Dinkins (D-N.Y.) to sign on. "I courted none of these congressmen longer than I courted my wife," says Treasury Secretary Lloyd M. Bentsen.

Despite the ugly horse-trading involved, the victory is sweet for Clinton. He struck a body blow against anti-NAFTA crusader Ross Perot, for one thing. Perot's legions of disaffected voters will remain a major factor in politics, but Clinton shredded the irascible Texas billionaire's credibility as an alternative to conventional political leaders. Clinton's momentum will also give U.S. trade negotiators a lift in the effort to conclude a global trade-liberalization pact and in upcoming efforts

to open Japanese markets to American goods and services.

Clinton's immediate task, however, is to repair the damage done by the NAFTA brawl to his own support. After months of vacillating between traditional liberalism and New Democratic reform, the trade fight forced the President to join a coalition of Republicans and business interests against such pillars of the Democratic Party as labor, blacks, and environmental activists.

In the bitterness of defeat, liberals are angry. "Bill Clinton showed that he is President of Wall Street, not of Main Street," says Representative Marcy Kaptur (D-Ohio), an anti-NAFTA leader. Adds her Ohio colleague, Representative James A. Traficant Jr.: "I think it's time for a third major political party in the U.S., because the NAFTA debate shows there's no damn difference between Republicans and Democrats."

And the rhetoric emanating from union headquarters is even more hostile. Clinton "screwed us, and we won't forget it," fumes William H. Bywater, president of the International Union of Electronic Workers. Although passions may cool after Congress adjourns, some labor strategists are threatening to recruit primary opponents for key pro-NAFTA Democrats in next fall's elections.

The new animosity could complicate the President's fight for his second-year legislative agenda. Many laborites have always been cool to Clinton's "managed competition" health plan anyway. Union defections could weaken the grassroots blitz that White House strategists hoped would counter the strong opposition to the Clinton plan from Republicans and moderate Democrats. Now, promises Teamsters President Ronald Carey, the White House "can't necessarily count on us."

Mindful of the threat, the Administration will move aggressively to patch up relations with the liberals. Clinton may appear before a labor audience and appeal for solidarity. "We will work very hard to build bridges," says White House Chief of Staff Thomas F. "Mack" McLarty III. Next year, when the Administration unveils Labor Secretary Robert B. Reich's plan to consolidate federal job-training efforts, the White House also may increase funds to help workers displaced by NAFTA.

NEWT PROBLEM. Even Clinton's newfound alliance with House Republicans could prove to have unpleasant consequences. In the end, NAFTA's margin was provided by a large bloc of House Republicans. In the process, the White House helped transform Minority Whip Newt Gingrich (R-Ga.) from bomb thrower to statesman. That could backfire in future fights over crime, welfare reform, and the health-care

plan. The enhanced stature of Gingrich, who is expected to become Minority Leader in 1995, will make him a more formidable foe. In the future, says GOP pollster Frank Luntz, "Clinton's got to deal with Newt or face the possibility of defeat."

Still, the Administration is confident that as the economic advantages of expanded trade under NAFTA become apparent, the dire warnings of opponents will be forgotten. "I guarantee we'll see tangible results from NAFTA before Bill Clinton comes up for election again," predicts White House NAFTA czar William M. Daley. But in the meantime, Clinton has an awful lot of wounds to bind up. And the tough part for him is that he'll have to start by ministering to some of the main constituencies of a shaken Democratic Party.

By Susan B. Garland, Douglas Harbrecht, and Richard S. Dunham in Washington



Liberals are bitter, and labor rhetoric is downright hostile

LABOR TIF Clinton takes on one of the Democratic party's key constituencies, accusing labor leaders of using "shoddy, muscle-bound tactics" to defeat NAFTA. Pact opposition



NOV. 9 ROSS GETS GORED

Vice-President Al Gore goes after Ross Perot on *Larry King Live*. After the verbal slugfest, NAFTA support increases, while Perot's poll ratings drop.

NOV. 10 THE PREZ GOES FOR IT

At a press conference, Clinton shifts the focus of the debate from jobs to his Presidential prerogative to conduct foreign policy and to chart a vision for the country's future. In effect, he bets it all on winning NAFTA.



NOV. 16 THE BAZAAR HEATS UP

Clinton clinches last-minute votes on the Hill with deals on wheat, textiles, sugar, citrus

RUMBLE ON THE RUNWAY

Airline restructuring could turn into a labor-management brawl

Holiday cheer for the airline industry? Hardly. Instead, it looks like somebody spiked the punch—with arsenic. Industry leader United Airlines Inc. took its poison on Nov. 12 when it rebuffed a \$5.5 billion employee-buyout proposal offered by its unions. United now wants to sell assets, and may spin off some 25% of its business into lower-wage entities that would fly short-run routes. Its unions, though, are set to declare war. American Airlines Inc., meanwhile, has been holding last-minute talks to avert a Thanksgiving strike by its flight attendants, an event that could hobble the carrier during one of its most profitable seasons.

The long-expected airline industry overhaul has begun. Unfortunately, it's starting in the worst possible way, with labor and management poised to beat each other senseless. Just weeks ago, United looked as if it might set a more positive tone by crafting a deal with its unions to trade 60% of its equity for wage and work-rule concessions. But the deal died when United disputed the value of the union proposal and finalized the sale of its in-flight catering kitchens, which employ 5,200 union members, to a subsidiary of the Dial Corp. Now, with only a slim chance that a buyout can be put back on track, United plans to push ahead with its high-risk plan to break itself apart. "We have a cost problem," says President John C. Pope, "and we are going to have to solve it unilaterally."

The rest of the industry is headed in the same direction (table). For months, executives at Delta, United, American, and USAir have jawboned about the need to slash expenses to restore profits and compete with low-cost rivals such as Southwest Airlines Co. Continental Airlines Inc. has already introduced its low-fare service, dubbed CALite, which it says will be profitable by early next

year. On Nov. 16, Delta Air Lines Inc. announced plans to sell or pull out of its money-losing transatlantic routes and to study a low-cost airline. USAir Group Inc. is finalizing restructuring plans, too. "What happens at United and American," says one United union leader, "will set the tone for the entire industry."

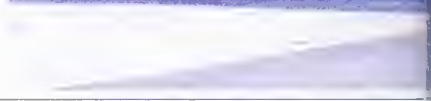
PILOT PROBLEM. Just now, the heat is on American. On Nov. 1, the airline imposed a new contract on its flight attendants' union. Unless eleventh-hour negotiations deliver a deal, the company will try to make the terms stick by weathering a strike threat. That makes sense to some on Wall Street. "American can't spend all this time complaining about its costs, then just back down," says Helene Becker, an airline industry analyst at Lehman Brothers Inc. However, the plan could backfire if American's pilots honor the picket line, a move that would paralyze the carrier. American officials concede that the company can't afford a widespread pilots' strike.

United may encounter equally stiff resistance. Already, its unions are contemplating work slowdowns and a big public-relations campaign to discredit management. "We'll make previous labor actions look like tea parties," vows one United union leader.

Union chiefs still hope United will revoke the flight kitchen sale, which won't close until early next year. Indeed, United CEO Stephen M. Wolf discussed the buyout with machinists executive John F. Peterpaul on Nov. 17. Air Line Pilots Assn. President J. Randolph Babbitt insists that "if the company wants to do something, they will find a way." The Clinton Administration may also use its leverage to prod United, which needs federal approval to mesh European routes with the German airline Lufthansa.

Meanwhile, Pope says United is finalizing a new restructuring plan. Detailed

The next clash may be at American, where some Wall Street analysts believe the carrier has no choice but to take a strike



internal company documents obtained by BUSINESS WEEK indicate the plan are risky but could deliver more value to shareholders than the ill-fated buyout. United's financial adviser, First Boston Corp., pegged the union deal at \$140 a share, more than \$8 a share below the company's closing stock price on Nov. 12. The unions say their deal was worth \$165 a share and could have been enhanced had United negotiated. But the internal documents, including First Boston's analyses, project shares to be worth up to \$275 in current dollars if successfully restructures itself.

How? The First Boston documents lay out two scenarios. The first option envisions outsourcing such work as aircraft painting, selling the San Francisco engine-maintenance operations, and forming a marketing link with a lower-cost carrier to compete with Southwest. These moves could save some \$200 m



UNITED: ONLY A SLIM CHANCE REMAINS FOR AN EMPLOYEE BUYOUT

RESTRUCTURING IN THE AIR

Major strategic changes and plans by U.S. carriers

AMERICAN is slashing capacity by 4.5% and cutting 5,000 jobs; adding more business-market flights; diversifying into new businesses

CONTINENTAL is expanding low-fare CALite flights to the East Coast and launching a transcontinental premium service; streamlining maintenance to save \$200 million a year; has cut 2,500 jobs

DELTA deferred the delivery of 32 aircraft; plans to sell or pull out of money-losing transatlantic routes

UNITED scuttled union talks; may take over some America West routes or launch short-hop units; unions plan to disrupt operations

USAIR is looking for ways to become more compatible with part-owner British Airways; could cut jobs and salaries, shelve unprofitable routes

DATA: COMPANY REPORTS, BUSINESS WEEK

a year by 2000, and produce a stock price in current dollars of \$150 to \$180 a share.

First Boston calls the other option "restructuring plan." Under this scenario, studied in part by Booz Allen & Hamilton Inc., United would spin off its short-haul routes into separate companies and issue stock in them to United shareholders. The carrier might also explore marketing links or invest in existing carriers. The most likely candidate, United executives say, is low-cost America Airlines Inc., which needs funds to emerge from bankruptcy. The carrier says First Boston could deliver a price of \$225 to \$275 a share.

The restructuring plan calls for United to break its short-haul business into regional carriers that would eventually generate 25% of United's revenue. New carriers would pay lower wages and improve United's operating income by up to \$640 million more than

what it otherwise would be in 1998, say the Booz Allen documents. Similarly, a link with America West, which would take over some of United's West Coast flying, could boost United's operating profits by \$60 million.

NO MILK RUN. United won't comment on any plans in its internal documents. But the proposals contain a host of caveats for investors salivating at the big numbers. The Internal Revenue Service would have to rule on the tax consequences of a spin-off, First Boston warns, which could hit United shareholders with a big bill. First Boston also presumes that the unions will fight efforts that leave them out. It figures that a severe union response could last two years, chop revenues by up to 5%, boost cancellations by 5%, and force the carrier to spend \$3 million to deal with a federal inquiry.

If everything goes awry, United could be worth a mere \$108 a share, according

to First Boston. And the unions point out that none of First Boston's scenarios account for the possibility of a strike. Some of United's business plans may be too rosy, as well. For instance, Morgan Stanley & Co. analyst Kevin Murphy says that a link with America West "doesn't make sense," because it flies too many longer flights.

In other words, it will be a stretch for United to best the unions' \$140-a-share offer. Meanwhile, anger is mushrooming among employees, many of whom believe the unions were led on. "We were messed with," says a United pilot. If the unions do fight, "their actions aren't consistent with solving the problem," says United's Pope. Maybe not. But if management walks down the restructuring road alone, nobody should expect labor to make the trip easy.

By Kevin Kelly in Chicago, with Aaron Bernstein in New York, Seth Payne in Washington, and bureau reports

MEDIA MANIA, PART TWO?

Some scenarios for deals involving the newly deregulated broadcast networks

Potential partners

**CAPITAL CITIES/ABC
AND WALT DISNEY**



Advantages

Disney already supplies hit shows such as *Home Improvement*; Disney CEO Michael Eisner once worked for ABC

Hurdles

Potential conflict over who would run the show, Disney's Eisner or Cap Cities' up-and-comer Robert Iger



**GENERAL ELECTRIC'S
NBC AND TURNER
BROADCASTING**

Turner and NBC are already mulling an Olympics broadcasting deal; a merger would give GE a multimedia play

Turner likely will want control; He also might not welcome GE as a powerful shareholder

**TELE-COMMUNICATIONS
AND FOX**



TCI's John Malone gets a stake in movie studio; Fox's Rupert Murdoch gets cable distribution

Cross-ownership of cable systems and a network could pose regulatory problems



CBS AND ????

DATA: BUSINESS WEEK

The No. 1-rated network would be a choice merger or purchase target

Laurence Tisch, who owns 23%, will hold out for top dollar

WILL MEGADEAL BE THE NEW NETWORK GAME SHOW?

Wall Street expects deregulation to bring a flurry of combinations

Ask Howard Stringer about industry conferences these days and he rolls his eyes. At a meeting in Washington on Nov. 9, the president of CBS Broadcast Group sat on a panel of media luminaries including Barry Diller and Bell Atlantic CEO Raymond W. Smith. But instead of a lively chat about show biz or even TV violence, the panelists bogged down in a technical discussion of telephone regulations. Says Stringer: "I wanted to ask whether I should get off the stage."

Good question. Until now, Stringer and his peers at Capital Cities/ABC Inc. and NBC Inc. have hovered in the wings while their business has undergone seismic change. On Nov. 12, though, a federal judge in Los Angeles pulled them back into the fray by lifting an antitrust consent decree that restricts the financial interest networks can have in the programs they telecast.

LAST ROADBLOCK. This arcane rule had restrained the networks from making a wide range of possible deals with Hollywood studios. True, the webs must still overturn a Federal Communications Commission ruling that bars them from the domestic TV syndication market for two more years. An appeals court in Chicago will hear that case. But Wall Street is already expecting a flurry of deals, and the networks are suiting up for the multimedia derby. Declares

Stringer: "It's the beginning of the end."

Cap Cities may have moved first by announcing that Chairman Thomas S. Murphy would return as CEO when Daniel B. Burke retires next February. The company didn't elevate Burke's heir apparent, Robert A. Iger, and some media analysts speculate that Murphy believes Iger isn't ready yet to navigate the company through the fast-changing landscape. As a result, Murphy may prefer a deal with another media company. Cap Cities declined comment.

Who might Cap Cities link up with? Well, Walt Disney Co. already produces such ABC hits as *Home Improvement*. And Disney Chairman Michael D. Eisner once ran the ABC network. Plus, Disney could use ABC's powerful distribution system for its programming.

That distribution system is central to the appeal of all three networks. Indeed, Disney's rivals, Time Warner and Paramount, recently announced plans to start fifth and sixth TV networks, precisely because they are afraid of losing network audiences for their own shows. Why? Because the networks are beginning to produce more of their own shows. Just this year, ABC has doubled its in-house production, while CBS is making hits such as *Dave's World* and *Dr. Quinn, Medicine Woman*.

Cap Cities has already explored deals with Paramount and Turner Broadcast-

ing System. But investment bankers say those talks foundered over issues of price and control. Hollywood sources say that despite Cap Cities' management uncertainty, Murphy wants to retain control of any merged company.

Price looms as an even bigger hurdle now. Thanks to the superheated bidding for Paramount Communications, the premium on all entertainment companies has skyrocketed. Nicholas Heymann, an analyst at NatWest USA, points out that NBC's parent, General Electric Co., declined to sell the network two years ago because no one would meet its price of about \$5 billion. Now, figures Heymann, the Peacock network could fetch from \$1 billion to \$10 billion.

BIG EYES. Not that GE is eager to sell, Chairman John F. Welch Jr. has made clear that he now regards NBC as an improving asset. Although it still trails in the ratings, the network should boost its 1993 operating earnings 47%, to \$3 million, according to Heymann. What more, NBC President Robert C. Wright has expanded NBC aggressively abroad by buying a controlling interest in the European TV service Super Channel.

But broader possibilities suggest themselves as well. How about an alliance with Turner? NBC and Turner are already hashing out cable rights for the 1996 Olympic Games. And Porter Bibb, an investment banker at Ladenburg, Thalmann & Co., suggests GE should consider broadening that relationship by turning NBC over to the Atlanta mogul in return for a 40% equity stake in the new company.

The networks will have to move quickly to make choice deals. Hollywood sources say cable titan John C. Malone is already negotiating with Rupert Mu-

loach about buying a minority interest in Fox Broadcasting Co. And Malone has also talked to Sony's Columbia Pictures and Matsushita's MCA.

Even the industry's inveterate oddsmakers are reluctant to predict CBS' future. With its No. 1 rating, strong balance sheet, and new stars such as David Letterman, the Tiffany network is again a lustrous asset. But decisions on any

deals are going to remain the sole province of CBS Chairman Laurence A. Tisch, who owns 23% of the company's stock. Observers say Tisch has thoroughly savored the network's run at the top. But insiders don't doubt that if someone made the billionaire investor a good offer, he would sell out.

For the time being, as the regulatory environment shakes out, the networks

will probably pursue smaller deals with independent producers rather than megamergers. But with government restrictions fading like a bad sitcom and asset values soaring, it's only a matter of time before the networks take center stage in the great media shuffle.

By Mark Landler in New York, with Ronald Grover in Los Angeles and Mark Lewyn in Washington

UTOS

ASSAULT ON BATTERIES

Detroit wages war on legislation promoting electric cars

Ford Motor Co. made sure that there was plenty of fanfare on Nov. 16, when it handed over the keys to its new Ecostar electric vans. Vice-Chairman Allan D. Gilmour trekked west to deliver one to Southern California Edison Co. Back in Motown, Detroit Edison Co.'s chief executive, John E. Lobb, pooled up in a 1914 Rauch & Lang electric car to collect his company's first Ecostar.

Behind such high-voltage eco-PR, however, the Big Three auto makers are working to delay or cancel rules that require them to offer electric vehicles for sale in the U.S. by 1998. They fear that they will lose hundreds of millions of dollars pushing expensive technology on reluctant consumers. So they're lobbying lawmakers, taking states to court, and grousing about the lack of long-range batteries to power such vehicles. "You can't legislate innovation," says Kenneth R. Baker, head of GM's electric vehicle program.

Despite Detroit's complaints, California regulators are standing by rules established in 1990 that require manufacturers to push up the number of electric cars they sell in the state to 2% of overall sales by 1998 and to 10% by 2003. Given Detroit's lead time for new products, carmakers have just a few months to decide which models to make to meet California's requirements. Adding to the heat, auto makers in Europe and Japan are pushing ahead with their own electric car programs.

For now, the Big Three seem to be putting as much effort into lobbying as engineering. In August, Ford's Gilmour flew to California to meet with Governor Pete Wilson. In a follow-up letter, Gilmour said Ford expected to spend \$2 billion by 1998 to meet the state's electric vehicle requirement—and to lose money in the process. Meanwhile, the American Automobile Manufacturers



DOUBLE SPARKING: A FORD ECOSTAR DELIVERED TO DETROIT EDISON AND A 1914 RAUCH & LANG

Assn. has led the legal battle to block Northeastern states from adopting the California rules.

The car companies have plenty of evidence of the high cost of getting into electric vehicles—they've made sure of that. Ford's \$2 billion figure, for instance, includes such items as setting up a dealer network and projected losses for the first few years when volumes will be low and costs high. "The controller threw in everything he could find," concedes John R. Wallace, Ford's director of electric-vehicle development programs.

VOLKSWAGEN? Among the Big Three, Chrysler Corp. seems to have the soundest plan to meet the California deadline. It's quietly readying the next generation of its popular minivans to run on gasoline, natural gas, or electricity. The gasoline version premieres in 1995, the other models in 1996. To keep costs down, it's designing all versions to be put to-

gether largely on the same factory line.

Across the Atlantic, a joint venture in Germany between Mercedes-Benz and Volkswagen is testing advanced batteries in 60 different electric prototypes. Mercedes expects to build an electric version of its A3 small-car prototype by the end of the decade. Japanese carmakers are pressing ahead, too. Last year, Honda Motor Co. dropped its Formula One racing program to focus on environmental research and development.

Some of the most intriguing research, though, is at small companies. A zinc-air battery developed by an Israeli company, Electric Fuel Ltd., has powered a small Mercedes van 200 miles on a single charge, double the range of other batteries. The German postal authority will test the product in more than 50 vehicles next year. A German company, Magnet-Motor, has tested a city bus that's partly powered by a flywheel spinning at 12,000 revolutions per minute. Other companies, such as three-year-old American Flywheel Systems Inc. of Seattle, also hope to power vehicles with the energy stored in rapidly rotating gyros. With so many companies in the clean-car race, can Detroit really afford to back off the throttle?

By David Woodruff in Detroit, with John Templeman in Bonn and Neal Sandler in Jerusalem

Ford says California's rules, which mandate that 2% of all sales must be electric cars by 1998, will cost it \$2 billion

Commentary/by Christopher Farrell and Michael J. Mandel

WHAT'S ARRIVING ON THE INFORMATION HIGHWAY? GROWTH

Ah, multimedia. Like the California gold rush of 1849 and the Oklahoma land grab of 1889, the coming convergence of media, computer, and communication technologies has set off an epic scramble for stakes in the Information Age. But even though billions of dollars are being spent on takeovers and alliances, nobody knows yet which companies and technologies are going to come out ahead—or even whether a viable market exists.

There is already one clear winner, however: the U.S. economy. The nation's telecommunications giants are poised to spend tens of billions of dollars during the next decade to revamp their electronic networks and to lay millions of miles of fiber-optic cable. Investment in the Information Superhighway could generate jobs and swell incomes for years. Indeed, just as economic growth in the 1980s was kicked higher by real estate investment, economic growth in the 1990s may be driven upward by the telecommunications revolution.

CALIFORNIA PLANNING. The first wave has already begun, with the biggest push coming from Pacific Bell, the California phone company of Pacific Tele-
sis Group. On Nov. 11, it announced a \$16 billion, seven-year plan to build a high-speed fiber-optic transmission system offering voice, data, and video services. That's an increase of 26% from its previous spending plans. Bell Atlantic Corp. says it will invest \$15 billion over the next five years, assuming regulators don't block its merger with cable-television giant Tele-Communications Inc. "What you now have is an acceleration of an investment cycle," says Eli M. Noam, a Columbia University economist.

If other Bell operating companies follow suit, the Baby Bells during the next five years could boost their capital spending by \$25 billion to \$50 billion, on top of

the \$100 billion they were previously projected to spend. This investment increase could rival the rise in business spending on computers in the past several years. It could rival the federal spending on the new interstate highway system during the late 1950s and early 1960s (table). With combined revenues of more than \$80 billion and sterling balance sheets, the Baby Bells can

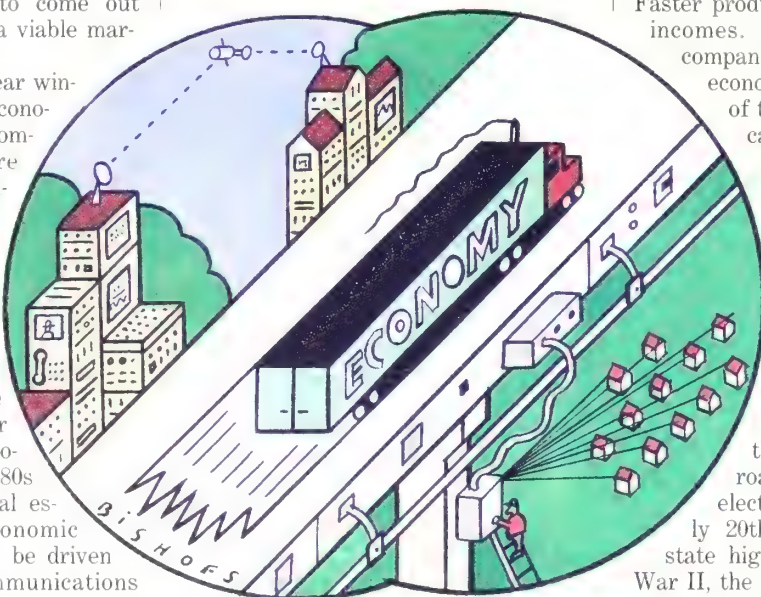
vares, an economist at forecaster Laurence H. Meyer & Associates.

True enough, the Baby Bells and other telecom companies are cutting jobs, even as they accelerate their investment efforts. But the impact of their investments will have a powerful multiplier effect on the economy in coming years. Here's how: Higher investment rates boost productivity. Faster productivity growth raises real incomes. Consumers spend more, companies start hiring, and the economic tempo picks up. Much of the gain from telecommunications investment will stay in the domestic economy, too, because U.S. producers account for a major chunk of the world telecom industry.

Yet the raw investment numbers understate the dynamism that will be unleashed by building the Information Superhighway. Much like the construction of the railroads in the 19th century, electricity networks in the early 20th century, and the interstate highway system after World War II, the Information Superhighway will change the way we live at home and at work. It will also open up opportunities for new goods and services dreamed up by the nation's innovators and entrepreneurs—cutting-edge ideas that spur economic growth.

To be sure, the telecom boom of the 1990s is not a done deal. Lawmakers and regulators could dampen the spending explosion by maintaining traditional barriers to competition among the various telecom players or by slowing spending on the Information Superhighway. But the lure of a new profit frontier and the fear of being left out are driving telecom companies to consider investment programs unthinkable a few months ago. That's the best news the demand-starved U.S. economy has had in many a moon.

Farrell and Mandel cover economics for BUSINESS WEEK.



easily afford such a spending splurge.

The total, moreover, seems sure to grow, as cable, wireless, computer, and other telecommunications companies join the spending spree. Spending on the Information Superhighway isn't likely to slow, either, even if interest rates rise or the economy temporarily flags. "It's investment in response to opportunities and technologies that didn't exist before," says Chris Var-

ONCE AND FUTURE SPENDING BOOMS

Spending over five-year period above baseline rate of previous two years

Billions of 1993 dollars

INTERSTATE HIGHWAYS (1959-63)	\$38
Federal highway grants	
REAL ESTATE BOOM (1985-89)	\$53
Investment in office buildings	
COMPUTER FRENZY (1989-93)	\$22
Business spending on computers and office equipment	
INFORMATION SUPERHIGHWAY (1994-98)	\$25-50
BUSINESS WEEK estimate of capital spending, including equipment and infrastructure, by Baby Bells	

DATA: COMMERCE DEPT., BUSINESS WEEK

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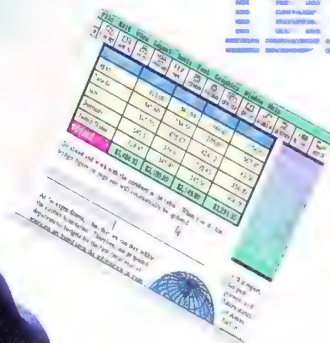
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DONNA KARAN BACKS OUT OF SHOWING HER BOTTOM LINE

A plan to go public is dropped amid skepticism on Wall Street

Donna Karan donned a pin-striped suit for the occasion, but she was clearly ill at ease with her audience. "I'm Donna Karan. That's who I am," she said at a hurriedly arranged news conference on Nov. 17. "I'm much easier at runway shows than I am at this."

"This" meant calling off the initial public offering of her Donna Karan New York fashion house, one of the industry's most successful. The company had planned to sell 11 million shares at \$16 apiece in December. Now, the offering is on hold—though Karan's partner, Frank Mori, whose Takiho Co. also owns the Ann Klein fashion house, says he'd like to try to take Karan public in 1994.

Karan's couture, in the end, played far better on the runway than it did on Wall Street. Investors shuddered at the high prices of her core women's lines and backed off when evidence appeared that the company's diversification into fragrances and clothing for men and kids wasn't performing well (chart). A roadshow to sell the IPO, originally scheduled for early November, was first postponed, then cancelled—apparently in the face of a poor reception.

"The fashion critics have been genuflecting before her for the past five years," says Alan Millstein, an apparel consultant in New York. "She's not used to the searing light of the financial press."

FAST RISE. Karan, 44, has enjoyed a spectacular run in an industry that burns designers out faster than hemlines change. She founded her fashion house in 1984. Through a combination of clever advertising, an ability to design simple, sexy clothes, and the cultivation of such celebrities as Candice Bergen, Barbra Streisand, and Hillary Rodham Clinton as clients, Karan became known as the Empress of Seventh Avenue. Last year, the company earned \$33 million on \$258 million in sales. But department stores may

be tiring of the Karan look. "She had a tough spring and a tough fall," says an executive at one of Karan's biggest department-store accounts. "The clothes were a repeat of last year." At the news conference, Karan's husband, Stephan Weiss, confirmed that the company's fortunes have dipped. For the first nine

DONNA KARAN'S NIGHTMARE



months of 1993, Karan earned \$28 million on \$265 million in sales. Sales rose 15%, but "earnings were not up to internal expectations," Weiss said.

Even before that news, institutional investors were wary of the offering. "Her prices could be a hindrance," said Michael Haines, a portfolio manager at Founders Discovery Fund in Denver,

which owns 91,000 shares of Tommy Hilfiger Corp., before Karan yanked the offering. "It would have been better if she'd gone public during the late '80s when there was more conspicuous consumption." Indeed, a Donna Karan cashmere-and-spandex bodysuit goes for \$800; a partially lined wool blazer fetches \$1,400. That's one reason that Kurt Winters, a portfolio manager at Securities Corp., whose fund used to be the biggest holder of Liz Claiborne, says he threw the Donna Karan prospectus out. "This [IPO] was primarily seen as a vehicle for Donna and her husband to cash out," he says.

BIG RISK. Karan's efforts to diversify didn't help her cause. Rather than

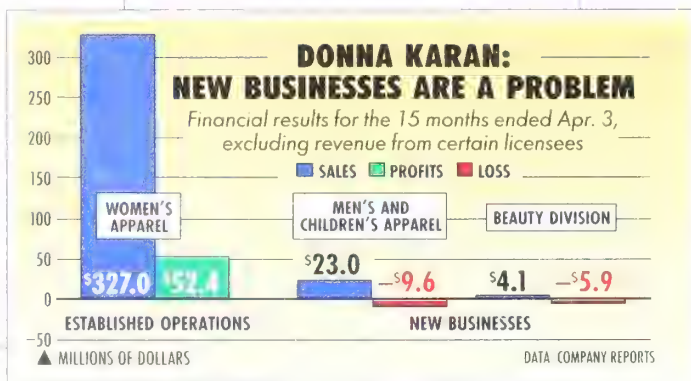
censor her new perfume to a fragrance veteran, for example, Karan and Weiss established their own fragrance company. "Everyone advised her against doing that, but she thought she could make a killing if she did it right," says one department-store executive.

Instead, Donna Karan Beauty Corp. lost \$6.1 million on sales of \$4.1 million for the 15 months ended Apr. 3, 1993. Industry sources say many bottles were returned because the spritzer piece didn't work properly. Weiss, a sculptor who designed the bottle himself, admits that there were production "glitches" but says they have been fixed. The company recently introduced perfume, body lotions, and now, says Weiss, the beauty company is "doing too well to consider licensing it."

So far, Karan's ventures into men's and children's clothing have been unsuccessful. That's no surprise. "I can't remember a women's apparel company that has ever made money in men's and children's clothes," says Peter Siris, an analyst at UBS Securities Inc. "I had a sell recommendation ready to be issued on the day of the offering."

Still, many retailers have faith in Karan's ability to turn her business around. "Donna is very dedicated and very intense, and when business isn't good, she comes into the store and wants to know what she can do better," says Rose Marie Bravo, president of Saks Fifth Avenue. Good thing, since she'll have to do much better to tackle Wall Street again.

By Laura Zinn in New York



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TRUMP TRIES TO PULL A HOUDINI

Conjuring up the financing for five big deals will be a neat trick

The relentless Donald Trump is suddenly eager to show that, when it comes to deals, he's still the artist. True, his easel and brushes remain in hock. But give the debt-laden developer credit: He's working on a plan to wiggle out of the \$200 million in personal debt from his 1990 near-collapse. And he has five real estate projects simmering, which he insists will restore him to his former glory. Even though the prospects are uncertain in a market still shell-shocked from 1980s excesses, Trump shows his old fighting spirit. In what skeptics see as a massive display of wishful thinking, Trump tells anyone who will listen: "I'm back."

Trump has some cards to play. His

Whatever he does in Atlantic City, Trump must move quickly. Nearby Philadelphia is considering legalized gambling. Already, Foxwoods casino in Ledyard, Conn., is a rival to Atlantic City.

Trump, meanwhile, will have a real challenge scaring up financing for the real estate and gambling deals he's planning elsewhere. Banks are leery of lending him money after getting burned in his 1990 meltdown, and his personal fortune is modest. "He's got maybe \$1 million in cash, and that's it," says a banker who follows his finances. That means Trump must find big-bucks partners to provide capital or hope he can tap the junk-bond market, which at least for now is still high on casino issues.

The same goes for Las Vegas, now in the midst of a building boom. The \$1-billion MGM Grand Hotel, the pride of Los Angeles financier Kirk Kerkorian, is set to open in December. Trump is eyeing the Aladdin, a perennial money-loser that a subsidiary of Bell Atlantic Corp. has owned since foreclosing on it in 1991. Casino analysts say Trump could pick the place up for less than \$100 million but would have to sink in an additional \$500 million in improvements to keep up with rivals.

OUT OF CLOUT. Too bad that Trump no longer commands the financial arsenal that blows away obstacles. In Tokyo, for instance, he wants to build a replica of Manhattan's Trump Tower, a residential and retail edifice, on the site of a burned-out hotel. He has no clout in the deal, though, since he's putting up no money. The property's lender, Chiyoda Life, is taking over the parcel from his Japanese partner and shows no inclination to talk to Trump. Trump believes they'll come home once they hold clear title.

Closer to home, in New York, Trump plan to put up a \$3 billion, 16-building

CAN THE DONALD COME BACK FOR REAL?

THE ALADDIN

THE DEAL Hopes to buy down-at-the-heels casino

THE HANDICAP Price is right but needs huge investment to compete in tight market

TOKYO

THE DEAL Trying to turn burned-out Tokyo office building into luxury apartment/retail complex

THE HANDICAP Japanese partners in a dispute over rights to site

RIVER GAMBLING

THE DEAL Plans to build a casino in Gulfport, Miss.

THE HANDICAP A hot market that's already getting saturated; operating approval still needed

GOLFING

THE DEAL Seeks approval to turn Mar-A-Lago, his Palm Beach estate, into a private golf club

THE HANDICAP Trump may be too tacky for local grandees; mortgage lender still must approve project

RIVERSIDE SOUTH

THE DEAL An on-again, off-again \$3 billion residential-commercial project in Manhattan

THE HANDICAP Mortgage payment overdue; ability to raise money uncertain



comeback, if it comes, will be based on leveraging his three Atlantic City casinos, now on sound financial footing after brief excursions into bankruptcy lowered their interest payments. He wants Trump Taj Mahal and Trump Castle bondholders, who won half-ownership of the gaming halls during his debt crisis, to give him back 100% of their equity in exchange for fresh paper paying high yields. Then he says he'll float a stock offering on all three with the proceeds going to pare the personal debt that hinders him from doing new deals.

FAST FOOTWORK. Will the maneuver generate enough cash to get Trump out of hock? It would put a big dent in his \$200 million debt, but it's doubtful he could erase it all. Another concern: He would be going to market six months from now. Gambling stocks, red-hot three months ago, are off a bit today.

Should Trump be counted out? Not entirely. His strong suit is marketing savvy and glitz. While Trump won't comment publicly on his plans, he's not altogether silent. "The name Trump is hotter than ever," he boasts. And he's not wrong. The 47-year-old ex-tycoon remains a gossip-column staple: His girlfriend, Marla Maples, recently gave birth to their daughter, Tiffany.

But without the ready lenders he counted on in the 1980s, the capital demands of Trump's new ventures may prove too much. Consider the casino he wants to start in Gulfport, Miss. (price tag: \$58 million). He's seeking a license to run a gambling operation on a boat docked beside a deteriorating aquarium that he'll spruce up. But the market is getting crowded: There are already seven casinos in the area, with five more set to open by spring.

apartment complex called Riverside South hinges on state financing, which he insists he has secured for its first four buildings. Assuming Trump gets the public money, the profit potential for him is unclear. Meanwhile, he's locked in a dispute with Chase Manhattan Bank about rolling over the overdue \$12 million mortgage for the land.

The surest shot Trump has these days is to convert his Mar-A-Lago estate in Palm Beach, Fla., into a country club. The town council, which has been warring with Trump for three years over use of the site, has approved the plan. Trump contends he has 600 people willing to join for \$100,000 each. Hyatt. Maybe, but hype is the one thing he's got lots of these days.

By Larry Light in New York, with Ronald Grover in Las Vegas, Robert N. in Tokyo, and bureau reports

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MICKEY DOES MANASSAS

Hope—and dismay—greet plans for Disney's America



BULL RUN BATTLEFIELD: DISNEY WANTS TO BUILD A REPLICA TO REENACT CIVIL WAR COMBAT

For two centuries, tiny Haymarket, Va., has been little more than a crossroads for settlers, traders, and travelers headed for the mountains west of Washington, D. C. The town has just 500 residents, a two-person police force, a sandwich shop, a hardware store, and a grocery. The closest tourist attraction until now: a national park five miles east that commemorates the bloody Civil War battles of Bull Run, near Manassas, Va.

Things are likely to change fast in Haymarket, though, thanks to Walt Disney Co.'s Nov. 11 announcement that by 1998, it plans to build a huge new theme park next door. Disney's move has Haymarket making big plans to spruce up with quaint new brick sidewalks, gas lamps, antique stores, and a museum to glorify its colonial past. The danger: that Haymarket's future may resemble the sprawl of Anaheim, Calif., and Kissimmee, Fla.—other towns in Disney's shadow. "It's going to be the same story all over again," says Mike Davis, co-owner of Haymarket Grocery. "People aren't going to know what hit them."

SAFE AT HOME? Disney hopes to build its third U.S. theme park on 100 acres in the middle of a 3,000-acre tract in Prince William County, some 35 miles west of the nation's capital. Reeling from the financial black hole of EuroDisney—which lost \$899 million in its first full year of operation, forcing the company recently to post its first quarterly loss in years—Disney thinks it's safer to expand at home, analysts say. Disney's America, which will cost an estimated

\$750 million, is a key part of that plan.

It's envisaged as a theme park with a difference. An imitation Ellis Island will replace Cinderella's Castle. Mickey and Minnie will be upstaged by animated U.S. statesmen at Presidents' Square. Instead of Space Mountain, visitors can take a high-speed ride through a replica of a turn-of-the-century steel mill.

Many people in the economically depressed Haymarket area welcome the park. Mayor Jack Kapp was won over fast. "After you visit static monuments in Washington, you can come here and see active history," Kapp says. "It will be like you're actually on a battlefield."

Tim Everett, owner of Gossom's Hardware, foresees piles of Disney dollars. Since the real estate bust of the late 1980s, Everett's hardware sales have dropped by half, from \$1 million in 1989 to \$480,000 this year. "It doesn't take a rocket scientist to figure out that I'm excited about Disney coming," he says. "Now, the sky's the limit."

But other residents dread an end to their quiet life at the base of the Bull Run Mountains. Robert T. Dennis, presi-

dent of the Piedmont Environmental Council, already is organizing the opposition. "It will suck urban sprawl all the way out to the Blue Ridge," he says. Pam McGroarty, who moved to western Prince William 15 years ago because it was a safe place to raise children, wants to protect the area's rural lifestyle. "It would be a travesty to have a bunch of Best Westerns at the base of the Bull Run Mountains," she says.

Controlling development has proved difficult around Disneyland in California and Disney World in Florida. Central Florida had only 5,800 hotel rooms in 1970, the year before the Magic Kingdom opened. By the time Epcot Center was unveiled in 1982, there were 40,000. Today, the region has more than 80,000 rooms, and Highway 192 through Kissimmee is a garish neon strip.

FEW CONTROLS. Disney officials say they plan to avoid the problems that have plagued the other theme parks. "The last thing we want is to have another Anaheim there, with places at our border that the local community wouldn't want," says Peter Rummell, president of Disney Design & Development Co. He expects Haymarket to attract mainly day-trippers from Washington. So the company at first will build only 150 hotel rooms. Disney also says it will meet with local authorities about controlling development at the park's borders. "The decision is up to the local government, of course, but if we can help them, we intend to do just that," Rummell says.

Disney has persuasive arguments in favor of the park. It estimates that the project will generate \$1.5 billion in taxes over the next 30 years. But it's far from certain that the deal will fly. The company backed out of a \$3 billion project in Long Beach, Calif., because of difficulties getting permits to build a nautical theme park and five resort hotels. Outside Kissimmee, it still awaits approval for its Celebration development, which includes 8,500 units of housing, a 2 million-square-foot mall, and 3 million square feet of office space.

In Virginia, clogged roads are likely to be the main bone of contention. Residents such as Karen Walton, who owns a sandwich shop in Haymarket, worry that Virginia taxpayers will foot the bill to bring cars to Disney's parking lot. "We don't want to be paying for roads so that everyone else can come here," she says. With the park sure to bring other problems, Walton wonders: "What is going to be benefiting?" It won't be another Bull Run, but the battle over Disney's new park is sure to be fierce.

By Mary Beth Regan in Haymarket, Va. with Gail DeGeorge in Miami and Ronald Grover in Los Angeles



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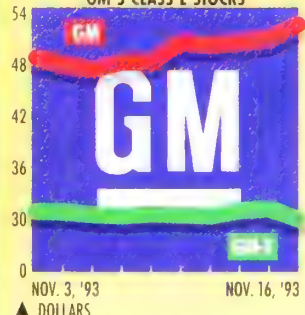
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TO MAKE.



EDITED BY KEITH H. HAMMONDS

CLOSING BELL

PRICES OF GENERAL MOTORS AND
GM'S CLASS E STOCKS



GM FILLS THE GAP

General Motors may narrow its yawning \$24 billion unfunded pension liability. The auto giant on Nov. 15 said it wants to contribute 185 million Class E shares, which reflect the performance of GM's Electronic Data Systems subsidiary, to the fund. The stock transfer is worth about \$5.7 billion. The company has promised to fully fund its pension by 2000. Better news: Chief Executive Jack Smith told analysts on Nov. 16 that the company's North American auto operations will be in the black next year.

DATA: BRIDGE INFORMATION SYSTEMS INC.

JOBLESS FIGURES GET A DOSE OF REALITY

The government's job measures are finally catching up with reality. In January, the Census Bureau and Bureau of Labor Statistics will replace their current monthly survey of households—introduced in 1967—with a new questionnaire designed to produce more accurate measures. Women will no longer be asked, for example, whether their main activity is "keeping house or something else." Tests of the new survey have produced a 0.5 percentage-point increase in the jobless rate, mainly by increasing the number of women who identify themselves as working or seeking work.

THE FEDS RAIN ON GM'S PARADE

General Motors has lately reported a string of good news (left). Then came the bad. On Nov. 16, the Justice Dept. filed a civil antitrust suit to block the proposed sale of GM's Allison Transmission division to Germany's ZF Friedrichshafen. The government says that the combination would create monopoly power in the U.S. transit-bus and garbage-truck markets. The feds are also concerned that the two companies' designs make up 89% of the \$700 million in medium and heavy automatic transmissions sold annually.

A MULTIMEDIA PATENT IS HEADED FOR COURT

The multimedia industry was stunned on Nov. 15 when a Tribune subsidiary announced it had won a broad patent covering the basics of multimedia software—programs that combine text, images, and audio. Compton's New Media says it intends to charge royalties of up to 3% on sales to companies that use its techniques for searching and retrieving files from multimedia data bases. Patent attorneys say such a wide-ranging patent will be challenged in court immediately.

HEADLINER

FORSTMANN MOVES INTO THE COCKPIT

Leveraged-buyout maven Theodore Forstmann is starting a second career—as part-time jet salesman. On Nov. 16, Forstmann made himself chairman and CEO of troubled Gulfstream Aerospace, owned by his LBO firm, Forstmann Little.

The move is unusual—LBO funds usually stay clear of management—but Gulfstream needs the help. It faces soft sales and a tough market for its expensive jets: Its fully-loaded Gulfstream V goes for \$35 million. Forstmann, with a \$650 million investment on the line, fired former Gulfstream CEO William Lowe. "It means the deal's in trouble and Teddy is

not doing much else," says LBO rival.

Now, Forstmann is betting that his enormous Rolodex will help turn around the company. The intense executive already is pitching people he knows around the world. He says he sold several planes on a recent trip to Mexico. At a Nov. 13 sales meeting at Gulfstream headquarters, he revved up the sales force. At his side: Forstmann's former CEO of Northern Telecom, and Ron Penske—Forstmann limited partners and new members of Gulfstream's executive committee. Can the big name make it fly?

By Leah Nathans Sp...



RU486 BACKERS FEUD AMONG THEMSELVES

Etienne-Emile Baulieu, the French researcher who developed the RU486 abortion pill, badly wants to broaden its use. And, like some Clinton Administration officials, he is frustrated at drugmaker Roussel Uclaf's slow pace in bringing RU486 to the U.S. The company so far has failed

to come to terms with the Population Council, a New York outfit planning to license the drug in the U.S.

So Baulieu wants to set up a foundation to promote RU486 as an abortion inducer and to back research into potential use against breast cancer and as an induction in overdue pregnancies. The Population Council is interested in the nonabortion uses. And Roussel Uclaf, which is conducting its clinical trials on other applications, says it has no use for the foundation, either.

ET CETERA...

- Joseph Perella ended long job search, signing with Morgan Stanley.
- The UAW called off its staff in Caterpillar factories after just three days.
- Baxter International takes a \$925 million charge and plans to cut 4,500 jobs.
- Hewlett-Packard's fourth-quarter profits rose 87% on big sales gains.

PHOTO FINISH



AFTER MICHAEL JACKSON CANCELED A TOUR AND SOUGHT TREATMENT FOR PAINKILLER ADDICTION, PEPSI PULLED THE PLUG ON ITS STAR



THE 1993 BUSINESS WEEK
 ASIA SYMPOSIUM OF CHIEF EXECUTIVES

CHINA IN THE WORLD

THE WORLD IN CHINA

The most significant economic development of the last quarter of the 20th century is the opening of China.

Effectively walled out of western economic consciousness for almost 40 years, the return of China is rapidly being recognized as the most crucial defining factor of future world economic growth. In recognition of this fact, *Business Week* chose Shanghai as the 1993 venue of its annual gathering of Asia's business leaders, *The Business Week Asia Symposium of Chief Executives*.

Since 1979 when China launched its program of economic reform, its GNP has more than doubled. Exports have boomed as China grabbed world market share from Asia's more developed economies. For example, China now commands 25% of the world footwear market, compared to 10% in 1980; and 10% of the audiovisual equipment market, compared to virtually none in the early '80s.

THE STAKES ARE HIGH

This year China's real growth rate will be around 13.4%. By comparison, U.S. growth is unlikely to exceed 3.0%. The World Bank already calls China the world's third largest economy in terms of purchasing

power. If the China-U.S. growth differential persists, China could surpass the U.S. in economic terms by the early 21st century and become a lynchpin of world economic growth and global prosperity.

But China has a long way to go. Following 14 years of initial adjustments, the economy is only now entering its critical take-off phase. "If China fails," observes Jean-Michel Six, managing director for Asia and Europe at DRI/McGraw-Hill, "the cost to the rest of the world will be extremely high. If it succeeds, the balance of competition and growth will be radically changed, both within Asia and in the world at large."

TOMORROW'S ECONOMIC SUPERPOWER?

Key to China's current economic success is the country's gradual lowering of barriers to entry. Overseas Chinese, especially the Hong Kong Chinese, have been the first to take advantage of this. There is a natural synergy between China, Hong Kong, Macau, and Taiwan.

Peter K.C. Woo, chairman of Hong Kong's The Wharf (Holdings) Limited explained why the combination of Hong Kong and southern China works: it offers enormous global competitive advantage in terms of



quality, price, volume, and delivery. It is estimated that Hong Kong entrepreneurs alone have opened as many as forty thousand factories in southern China. The border village of Shenzhen has emerged as a thriving city of two million with China's highest per capita income. By the end of the century, Mr. Woo expects the Hong Kong-Pearl River Delta industrial heartland to be the world's leading manufacturing area.

Not to be outdone, Shanghai, the host city for the *Business Week* Symposium, has launched itself on a massive revitalization effort aimed at reclaiming the role it had before the Second World War – that of Asia's leading business center.

Wang Zhongyu, chairman of China's State Economic and Trade Commission explained that, "The goal is to turn Shanghai into an international financial and trading hub." **Shanghai Mayor Huang Ju** spent hours in discussion with visiting executives, and told his audience to shake off outdated images of China: "If you don't believe what China can do, take a look at what we have accomplished already. Look at Shenzhen. Look at Shanghai. The Yangtze River Delta and Valley regions are next. The business opportunity here is vast."

CAN CHINA SUSTAIN HIGH GROWTH?

China is rushing ahead at a phenomenal rate, not merely in growth terms, but conceptually as well. "China is leapfrogging into both the industrial and information ages," explained **Mei-Wei Cheng**, president of AT&T China, which signed a wide-ranging memorandum of understanding with the Chinese authorities on telecommunications development.

"China is telescoping the development of its economic infrastructure and telecommunications/information high-



"THE BUSINESS OPPORTUNITY IN CHINA IS VAST."

*The Honorable Huang Ju
Mayor of Shanghai*

ways into a single process. This has profound implications for the country's current rate of economic development and will shape China's potential for economic expansion into the next century."

What could mar this optimistic picture? A retreat from the Chinese government's policy of economic reform, including a large role for foreign enterprises on Chinese soil, is generally not considered a major risk. This was a point emphasized by the Morgan Stanley Group's Chief Global Strategist **David Roche**: "We are confident of the unstoppable nature of China's economic reform."

Rather, he singled out the problems that go along with rapid growth anywhere, and the special challenges inherent in negotiating a shift from a command to a market economy. Of these, overheating is the most pressing.

During the summer the annual inflation rate was more than 20% in China's major cities, and almost as much in the countryside. As a result, the government launched a 16-point program to dampen demand, undercut speculation, and cool the economy.

Jing Shuping, chairman of China International Economic Consultants and executive director of the China International Trust and Investment Corporation, told the *Business Week* Symposium that the anti-inflationary package is beginning to show results.

Sun Shangqing, president of the China State Council's Development Research Council agreed. He believes a growth rate of 8% to 9% per year is sustainable through the 1990s – a rate DRI's Jean-Michel Six endorses. That would mean a Chinese economy growing as fast as those of the U.S. or Europe in absolute terms.

Sun's optimism was based first on the size of China's population and huge domestic market. Then there is the 33% to 35% annual savings rate, and the anticipated





growth of highly competitive non-state-owned industries. A fourth factor will be the rationalization of resources through the market mechanism.

REFORM CONTINUES

In the first six months of this year, actual new foreign investment in China totalled more than \$9 billion – compared with \$11 billion for all of 1992. Much of this flow still comes from overseas Chinese. Paul Hsu, a partner at Lee & Li, a Taiwan law firm, estimates there is already \$10 to \$20 billion invested by Taiwan companies on the mainland, and much more on the way – a notable statistic given that just five years ago all communication between Taiwan and China was forbidden.

But as Zhang Xiaoji, deputy director of the Foreign Economic Policy Department of China's State Council, explained: China needs to shift from the labor-intensive industries that were the mainstay of growth in the 1980s, to businesses that make use of the country's brainpower. "China," he emphasized, "has to open up to everyone. It has to encourage multinationals from the U.S., Europe, and Japan to invest, and there must be no limits on the type of company. Builders and manufacturers – of course. But also the full range of service businesses."

"China's leaders see foreign investment as an essential catalyst," said AT&T's Cheng. "As a result, China is serious about making changes to attract foreign investment of every description."

Mr. Zhang points out that China is working to simplify its customs regulations, reduce tariffs, provide more legal safeguards for technology, and make government regulation more transparent. This last point was one underscored by Roche of Morgan Stanley, who noted that "ambiguity is fatal to economic restructuring."

Reform of the financial sector is also an on-going process, as a once monolithic structure is converted into specialized financial institutions. China has already



"MODERN FINANCIAL SYSTEMS HAVE NEVER BEFORE PENETRATED CHINA TO ITS ROOTS – ITS PEOPLE."

*Edmund Tse
Executive Vice President,
Life Insurance, AIG*



"CHINA IS LEAPFROGGING INTO BOTH THE INDUSTRIAL AND INFORMATION AGES."

*Mei-Wai Cheng
President, AT&T China*

seen the emergence of two stock markets: one in Shanghai and one in Shenzhen. The Shanghai Securities Exchange – one of the most automated in the world – has 88 listings, and more than four hundred affiliated brokers in all the provinces, municipalities, and autonomous regions across China, according to Exchange President Wei Wen Yuan. Foreign interest is high.

A BILLION CONSUMERS?

The fabled China market has long tantalized foreign businessmen. After a century of anticipation, foreign corporations are now moving to establish direct, personal contact with the Chinese people. Timothy M. Lane, president-Asia Pacific of Kentucky Fried Chicken, already has restaurants in places like Beijing and Shanghai, and plans 200 stores within the next five years.

Mr. Woo, however, warns that it is a mistake for foreign firms to think of China as one big market. Focusing on the 250 million people living in cities, Mr. Woo sees urban China as 30 different markets. His group has targeted five strategic points in China for investment: Hong Kong/Guangdong, Wuhan in the center of China's industrial heartland, Shanghai/Ningbo on the east coast, the province of Sichuan in the west, and Beijing/Tianjin. All China – but all different.

American International Group (AIG) is another company that has focused on the emerging China market, returning to its roots in Shanghai. Thanks to reform of the financial market, AIG's subsidiary, AIA, became the first foreign insurance company allowed to begin selling its products in China, according to Edmund Tse, AIG's executive vice president, life insurance. As a native son of China (AIG was founded there in 1919) it is appropriate that AIG should return and play a leading role in the mobilization of China's potentially massive amounts of domestically-generated capital. Modern financial systems have never before penetrated China to its roots – its people. AIA consumer insurance sales are roaring. Its local agents



have even gone so far as to request that the company drop its retainers and guarantees, and employ them all on a commission-only basis.

Ronnie C. Chan, chairman of Hang Lung Development, notes that the great fortunes of the U.S. were made at the end of the 19th century, through industrial consolidation. He sees a similar opportunity in today's China, with its many and varied structural dislocations. Rationalization and consolidation of these structural anomalies may best be handled by savvy foreign entrepreneurs who stand to gain greatly while helping to put China on a practical path to growth and full use of its prodigious resources.

THERE IS NO SINGLE CHINA STRATEGY

In approaching the opportunities China offers, **Ronald Stidmon**, managing consultant of Political & Economic Risk Consultancy, emphasizes that there is no one single strategy to guarantee success. In particular, he observes, it is important to understand the people behind the balance sheet, and the unique context of business in China.

John S. Wadsworth, Jr., head of Morgan Stanley Asia, says that "without profound understanding of these basics – the extremely unusual context of China – it will be difficult to impossible for any firm to successfully develop its vision and strategy. Frequently it is not only the company's own China strategy that its executives must design – they often must create their whole industry from the ground up."

One problem, notes XRG Principal **Jay Chen**, is that western companies in particular too often do things in China that they would never consider doing at home. Mr. Chen says such counter-intuitive behavior is a sign of potential trouble to which every Chinese partner should be alert. Kentucky Fried Chicken's Lane agrees: "It is important to establish clearly defined roles for local partners – before a joint venture starts operating. Otherwise you could be in for some truly remarkable surprises."



"FREQUENTLY IT IS NOT ONLY THE COMPANY'S OWN CHINA STRATEGY THAT ITS EXECUTIVES MUST DESIGN – THEY OFTEN MUST CREATE THEIR WHOLE INDUSTRY FROM THE GROUND UP."

John S. Wadsworth, Jr.

Head, Morgan Stanley Asia



"THE GOAL IS TO TURN SHANGHAI INTO AN INTERNATIONAL FINANCIAL AND TRADING CENTER."

Wang Zhongyu

Chairman, State Economic and Trade Commission of China

CHINA'S POTENTIAL IS NOT ALWAYS UNDERSTOOD

The problem, notes AT&T's Mei-Wei Cheng, is that China's potential is not always understood outside Asia, especially in the U.S. Indeed, *Business Week* Assistant Managing Editor **Robert Dowling** made the point that U.S. national political and security issues tend to dominate American thinking about China, often to the detriment of economic policy making.

As a result, according to Mr. Cheng, American companies find the playing field tilted against them by their own government – costing them sales – and, therefore, jobs – in the very industries where the U.S. is most competitive.

REDEFINING ASIA

China's emergence as the next economic superpower raises profound questions. Asia is growing less and less dependent on the rest of the world for the export markets needed to drive growth. Today more than 40% of Asian exports stay in the Asian region, compared with just 30% in 1986.

"The fate of Japan is inexorably linked to its neighbor, China," remarked **Kengo Inoue**, deputy director of the Bank of Japan's Research & Statistics Department.

To Korea's Daewoo Group Chairman **Kim Woo-Choong**, the implications are obvious. In an era when trade blocs are becoming more and more of a problem – already 41% of China's exports are subject to non-tariff barriers in the advanced economies – Mr. Kim believes Asia must work to maximize its own internal advantages.

"The future prosperity of the world," Kim told the *Business Week* Shanghai audience, "rests in Asia." He might have added that the future prosperity of Asia, rests in the hands of China.

The text of this special advertising section was written by Christopher S. Gray, PhD, a Hong Kong based business writer.

CALLING CLINTON'S BLUFF ON SPENDING

During the mad scramble to round up votes for his budget package, Bill Clinton made lots of promises to leery lawmakers. One that seemed fairly innocuous was a pledge to heed moderate and conservative Democrats' for a second round of spending cuts this fall. The White House was betting that once the budget was approved, the vision for deficit reduction would ebb and the deficit hawks would fade away. Bad bet.

Much to Clinton's embarrassment, a bipartisan group headed by Representatives Timothy J. Penny (D-Mn.) and John R. Kasich (R-Ohio) has called bluff. They've come up with a bill to trimming by up to \$103 billion over five years. They have put New Democrat Clinton in the uncomfortable position of saying no. The proposal is cleverly crafted, relying on a long list of relatively small cuts certain to outrage narrow constituencies, from rocket scientists to lent pilots, while minimizing pain to the wider public.

BOUNDLESS FEARS? The White House hasn't been able to come up with much but lame objections to the Penny-Kasich plan. While the president himself has proposed many of the reductions backed by the duo, he says the proposals should be used for crime-fighting and "investment" programs, not for deficit reduction.

Some of the Medicare savings offered in the proposal conflict with Clinton's health-care reform plan. Finally, despite hopes of accelerating growth, some officials profess fear of the economic impact of further cuts. "You can get too constrained, you can be too contractionary, and we sure don't want to back into recession," Treasury Secretary Lloyd M. Bentsen declared recently. Kasich, who is the ranking Republican on the House Budget Committee, dismisses such worries as "crazy."

The White House's real problem with a new round of cuts is political, not economic. The Administration's relationship

with liberals, who thought the original budget was cut too deeply, has been severely strained by the fight over the North American Free Trade Agreement. And many of the specific reductions in the proposal, from trimming the Appalachian Regional Commission to merging some functions of the Bureau of Land Management and the Army Corps of Engineers, would alienate key committee and subcommittee chairmen.

Normally, a proposal pushed by a Republican and a backbench Democrat who has announced his retirement wouldn't reach the floor. But Speaker Thomas S. Foley (D-Wash.), too, is paying for a deal made during the budget fight, when he promised Penny a vote on further cuts. The proposal, which has won the endorsement of two leading deficit-cutters, former Senators Paul Tsongas (D-Mass.) and Warren Rudman (R-N.H.), could come up as early as Nov. 20.

AN UPHILL FIGHT. Budget-cutting passion is even stronger in the Senate, where Senator Bob Kerrey (D-Neb.) is expected to push for significant new cuts before Congress quits for the year before Thanksgiving. To stop Kerrey's effort, the Administration may find it will have to depend on a filibuster led by Senate Appropriations Committee Chairman Robert C. Byrd (D-W.Va.).

With Congress rushing to wrap up the session, new budget cuts face an uphill fight. Penny and Kasich are hopeful that Congress is ready to send a message that it is serious about cutting spending. Self-proclaimed deficit hawks who oppose the package—especially those Democrats who "reluctantly" voted for Clinton's budget—"will have nowhere to hide," Penny declares.

After this summer's bruising budget battle, the White House had hoped to avoid major fiscal controversy next year. But Penny and Kasich will be back, and they plan to make sure that Clinton, too, won't find a hiding place.

By Paul Magnusson and Richard S. Dunham



PENNY HAS A LONG MEMORY

ITAL WRAPUP

ETHICS

Disputes over free lunches and greens fees are blocking progress toward ethics reform on Capitol Hill. House leadership had hoped to include restrictions on gifts to members in the lobbying-reform bill. Members now can take up to \$250 a year in gifts from any individual, with no report required for items under \$100. A bipartisan group, mainly composed of Democrats, wants to prohibit individual gifts of more than \$20, low enough to rule out a lobbyist-paid round of golf. House legislators that the reformers call the "lunch caucus" and the "f caucus" are blocking the proposed

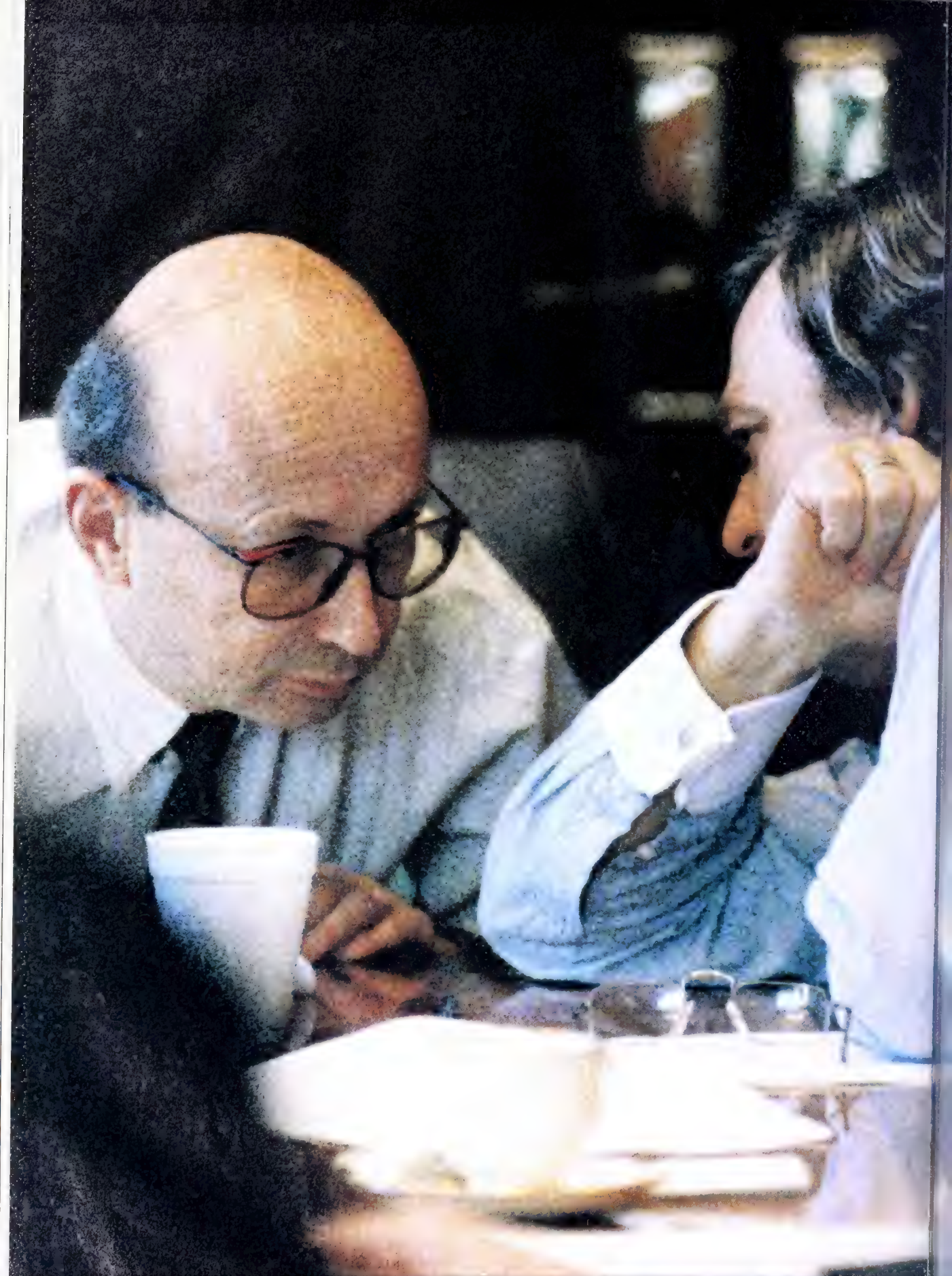
changes. Speaker Thomas S. Foley has set up a bipartisan task force to mediate the dispute, but no resolution is expected until next year.

ENVIRONMENT

To the surprise of business, the Clinton Administration is continuing to show flexibility in working out environment vs. development disputes. The latest evidence is a deal that will allow International Paper Co. to cut trees in most of a 125,000-acre tract in the Deep South that may house the threatened Red Hills salamander. The company agreed to reserve 4,500 acres in Alabama as a preserve for the 10-inch-long critter.

INCUMBENTS

If the rout of incumbents in this fall's elections didn't give New York Governor Mario M. Cuomo pause, a new poll should. An early November survey by the John Zogby Group found that by a margin of 56% to 36%, New Yorkers don't want the three-term Democratic governor to run again. But if Cuomo does go for another four years, the weakness of the GOP field could save him. In a series of trial heats, Cuomo ekes out narrow leads over a string of potential challengers, including State Senator George E. Pataki of Westchester County and former state GOP Chairman Richard M. Rosenbaum.



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EUROPE

SHOP TILL YOU DROP HITS EUROPE

Discounters and megastores may change the face of retailing



PRESSURE POINTS FOR EUROPE'S RETAILERS

U.S. CHAINS

Warehouse club operator Price/Costco is opening stores in Britain, provoking protests from local supermarket chains.

LONGER HOURS

Large retailers, unions, and religious groups are resisting efforts to allow late-night and Sunday shopping across Europe.

PRICING

Discounters of such items as books and perfume are fighting manufacturers to get supplies at lower prices.

FINANCIAL SERVICES

Charles Schwab & Co. is opening the way for no-fee mutual funds and discount brokerage services.

DATA: BUSINESS WEEK

London shoppers can hardly wait for Nov. 30. That's opening day for Britain's first warehouse club, courtesy of Price/Costco Inc. of Kirkland, Wash. And even before Costco's arrival, the British are benefiting from the retailer's reputation as a steep discounter. To protect market share, local chains J. Sainsbury, Tesco, and Safeway have initiated a price-cutting frenzy that has consumers overjoyed. Says Anthony O'Neill, a homebuilder and father of four: "Please build a few more Costcos, quick."

Costco's bold entry into Britain is one episode in the battle to transform Europe's consumer-hostile retail culture. For decades, Europeans have endured high prices, short shopping hours, and limited selection, while high-cost produc-

ers, inefficient retailers, and shop workers' unions enjoyed all kinds of legislative protection.

Now, upstart retailers and consumer activists across Europe are battling to throw this system open to all comers. And European planners and legislators who once ignored shoppers' rights are slowly coming to see more retailing competition as a way to produce jobs and whittle back stiflingly high cost of living.

It's shaping up to be quite a donnybrook. Costco's British opening was held up for six months by litigation from **VIRGIN MEGASTORE IN PARIS FLOUTED BLUE LAWS TO ATTRACT TOURISTS. NOW FRANCE HAS CHANGED ITS RULES** Sainsbury and other British retailers. Superdrug Stores PLC, British discount cosmetics chain, is another example. Relying on gray-market dealers, Superdrug can sell a 100-milliliter bottle of Christian Dior Dune perfume for \$59, 12% less than the recommended price. To ensure a steady supply, the chain wants to force perfumers to sell directly to it. But in a surprising ruling on Nov. 13, Britain's Monopolies & Mergers Commission supported the fragrance makers' refusal to do business with the discounter. Superdrug intends to pursue the case with European Community competition officials.

NO ELBOW ROOM. The issue of store hours is just as hot as discounting. In Germany, stores must close from 2 p.m. on Saturdays until Monday morning, causing manic elbowing in the aisles and huge traffic jams each Saturday. Economics Minister Günter Rexrodt is calling for longer hours and Sunday openings to promote consumption, retail employment, and healthy competition. Germany may also loosen a ban on in-store sales, currently allowed only twice a year. But in a recent speech, Chancellor Helmut Kohl, while urging retailers to consider longer hours, promised not to push for reform until after the 1994 elections.

Meanwhile, Britain's Parliament should vote soon on a bill allowing Sunday hours. The proposal is so controversial that Prime Minister John Major is now advising Tory members how to vote, although he is expected personally to favor liberalization.

French authorities are also struggling with Sunday shopping. Until September, only stores selling "essentials," such as gasoline and food, could trade on Sundays. A much publicized row with Richard Branson's Virgin Megastore, which flouted the law by

staying open on Sundays during the summer tourist season, pushed the French government to change. Now, retailers of leisure goods located in tourist areas are allowed to open on Sundays. Virgin's Champs-Élysées store and a second one that opened on Nov. 16 near the Louvre qualify. But officials may have opened a Pandora's box. An association of 13,000 stores located in nontourist areas also wants Sunday privileges.

While legislators debate, shoppers are voting with their feet. Because Belgium has no Sunday trading ban, an army of French shoppers crosses the border every Sunday. Belgian shopkeepers say that 40% of their Sunday sales come mainly from France's Lille region, and many Belgian shops stay open all Sunday to take advantage of this bonanza.

But Belgium's traditional retailers aren't immune. GIB Group, the country's largest retailer, with \$6.3 billion in 1992 sales, has been hit from all sides. Its Christiaensen toy-store chain is under pressure after rapid expansion by Toys 'R Us Inc. The U.S. retailer sells a Jurassic Park dinosaur for \$6.36, a lot better than Christiaensen's \$9.69 price. The rival of German discount chain Aldi is starting into GIB's supermarket store profits. And soon, Virgin will appear on the scene to compete with GIB's music stores, known as FNAC. Yet when GIB floated the idea of staying open on Sundays, its supermarket workers went on strike. Now, GIB has Christiaensen on the block and is laying off 20% of its work force—4,600 people.

KEY DEALS. It's not just Sunday closings at separate Europeans from the American "shop-till-you-drop" mentality. Numerous laws protect millions of small store owners, especially in France, where book discounting is forbidden, as is the sale of medicines outside pharmacies. Optometrists can't even sell lens retetting solutions. All retailers are banned from using TV advertising on the theory that only the big hypermarkets can afford to buy time, putting small shops at a disadvantage.

Because harmonizing retailing rules could almost certainly cause a political crisis, this is one issue the EC's single-market bureaucracy may never resolve. But the recession has clearly emboldened Europeans to start looking for the retailers that will give them the best deals on price and convenience. Says Jojo Allen & Hamilton Inc. retail consultant David L. Newkirk: "The fundamental forces can't be stopped. Consumerism has arrived." And if America's experience is any guide, consumerism could turn out to be one of Europe's longest social movements in the 1990s. *By Paula Dwyer in London, with Karen Wry Miller in Bonn, Stewart Toy in Paris, and Patrick Oster in Brussels*

ASTRA IS BURNING HOTTER IN AMERICA

The Swedish drugmaker's new medicines could be megasellers

Swedish drugmaker Astra has plenty to boast about. It recently won the right to buy a 50% stake in a promising U.S. venture with Merck & Co. Its antiulcer drug, Losec, is poised to expand its share of the \$8.4 billion global market for such medications as a result of favorable new clinical studies. And at a time when drug company margins are shrinking, Astra on Nov. 12 reported that its pretax profits for the first nine months of 1993 soared 69%. "We're trying to stay humble," says CEO Håkan Mogren.

Yet Astra has some not-so-humble expansion plans. Just as health-care reform is roiling the U.S., the \$2.4 billion company is preparing an assault on the American market. This year it doubled the number of salespeople calling on U.S. physicians, to 250—a move Mogren calls "one of the largest single market investments ever made by Astra." By 1995, it plans to boost that force to some 500 for the expected U.S. launch of its asthma medication, the Pulmicort Turbuhaler.

An even stronger stateside push could come from the Merck deal. Although Astra remains tight-lipped about its intentions, analysts are convinced that it will buy half of the venture, called Astra/Merck Group, for some \$700 million in late 1994 or 1995. The group's sales of Astra drugs under a 1982 licensing agreement have reached \$500 million, triggering a provision that gives Astra the right to buy the stake. Neither company will discuss the impact of Merck's pending \$6 billion acquisition of drug distributor Medco Containment Services Inc. But analysts speculate that Medco, as a captive buyer, could boost sales of Astra drugs by featuring them in its catalogs.

Astra is expanding into the world's biggest pharmaceutical market at a time when drug prices are painfully strained. SmithKline Beecham PLC's recent offer of \$10 consumer rebates on prescrip-

tions for its antiulcer drug Tagamet has led some analysts to fear that a price war could erupt in the \$2.5 billion U.S. market for such drugs. As Tagamet's patents expire next May and new generic rivals enter the scene, the pricing battle could escalate.

CLINIC COMBO. Still, Astra has good reason to feel confident about expanding in the U.S. Merck CEO P. Roy Vagelos has been high on the Astra venture for years. And Mogren notes: "Merck can contribute enormous marketing muscle."

Losec, sold in the U.S. as Prilosec, is already a proven blockbuster worldwide, rapidly gaining share at the expense of Tagamet (chart).

Losec's growth is also being fueled by good news from the clinic. For years, scientists had believed that ulcers were caused by stress. Recently, there has been overwhelming evidence that the culprit is a bacterium called *H. pylori*. In European tests, Astra

has been the first to show that an ulcer drug—Losec—can be combined with an antibiotic to kill this bacterium. The Losec/antibiotic combination is now "probably the best treatment" for ulcers, says Dr. Barry J. Marshall, a professor at the University of Virginia and a leading ulcer researcher. But Glaxo Holdings PLC believes that a new version of its Zantac drug will be just as good.

Meanwhile, some doctors are already prescribing the combination—and Losec sales continue to grow as the drug is approved for related ailments. Excluding the boost from Sweden's currency devaluation, Losec sales have grown 40% this year, with the gains coming mostly from volume rather than price. That momentum is a key reason

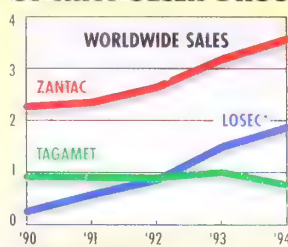
why Astra's profits are widely expected to jump 20% to 25% annually over the next five years. With expectations like that, it will be tough for Mogren to stay humble.

By Julia Flynn in London, with Joseph Weber in Philadelphia and John Carey in Washington

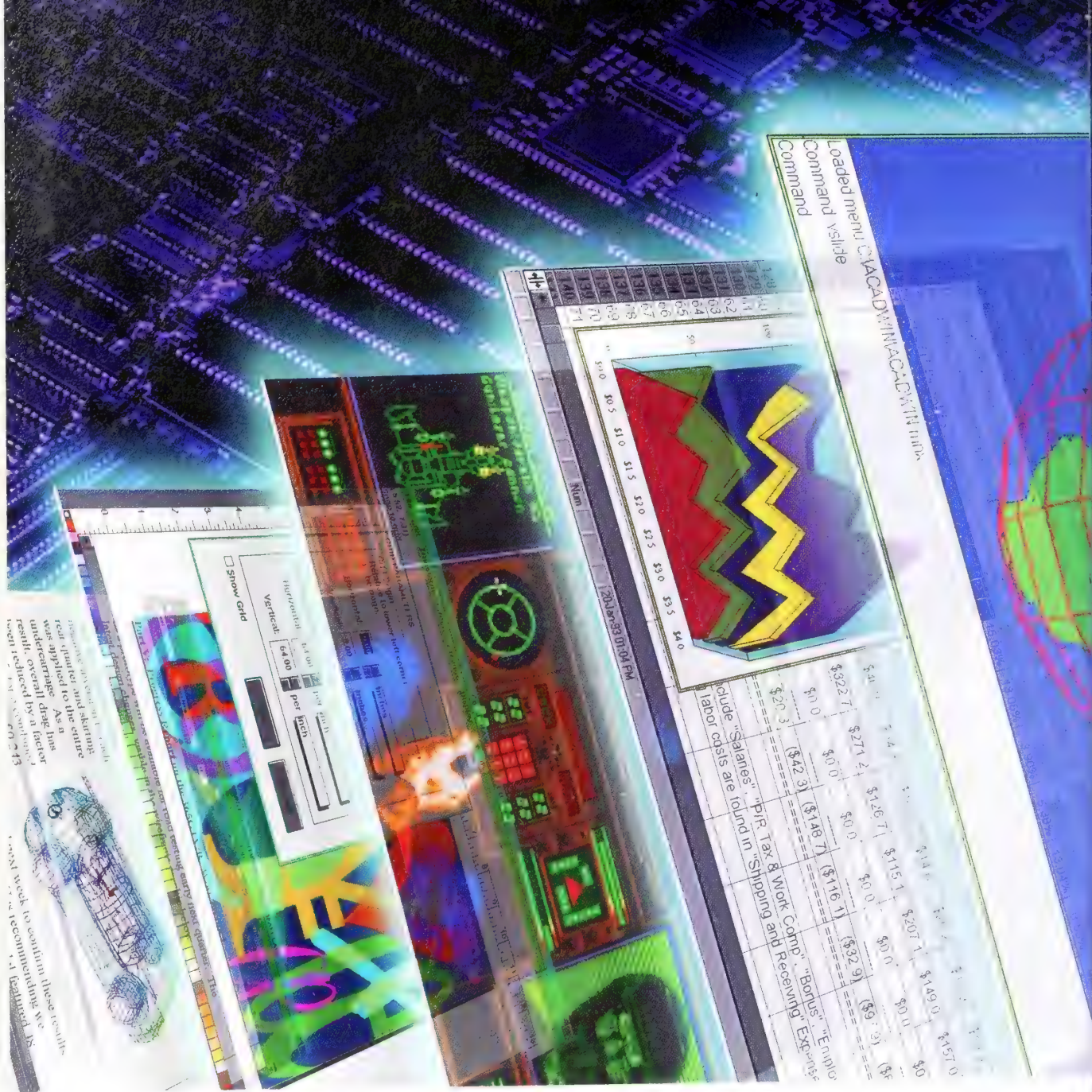


ASTRA CEO MOGREN

THE BATTLE FOR SALES OF ANTI-ULCER DRUGS



▲ BILLIONS OF DOLLARS
*INCLUDES SALES BY LICENSEES
DATA: COMPANY REPORTS; GOLDMAN, SACHS & CO.



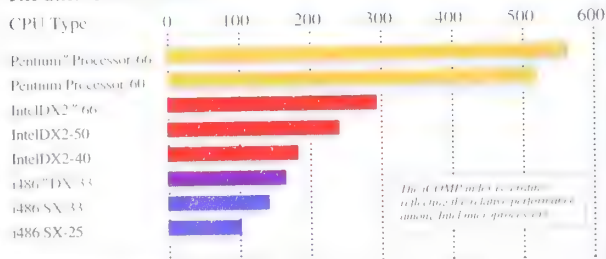
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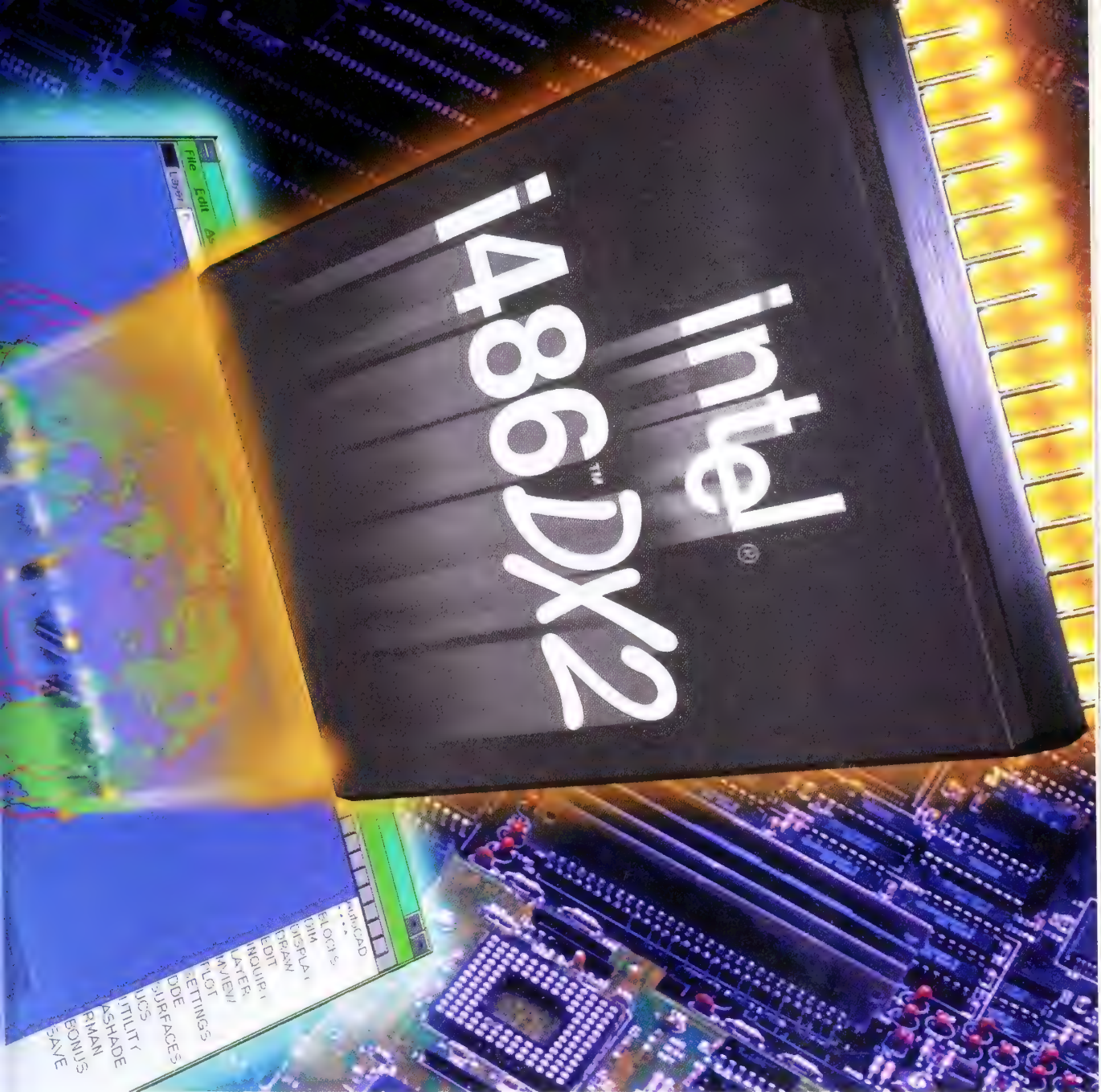
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POWER IN PALESTINE: HOW HUSSEIN IS OUTPLAYING ARAFAT

Israel's huge Dead Sea Works Ltd. produces potash from sites that are at one point only a few yards from those of Arab Potash Co., one of Jordan's largest corporations and its second-largest exporter. But thanks to the 45-year state of war between Jordan and Israel, the two companies might as well be on different continents. Now, however, Dead Sea Managing Director Uri Ben Noon says he has been meeting with Jordanian counterparts to discuss joint marketing arrangements and technology sharing.

Such contacts are among the indications that Israel's talks with the Jordanians are progressing more rapidly than its widely publicized dealings with Palestinians. Although a formal peace accord between Jerusalem and Amman is still some time off, the two have been working out arrangements for managing the upcoming experiment with Palestinian self-rule in the occupied territories. Says an Israeli Foreign Ministry official: "It has been easy to negotiate with the Jordanians."

The same cannot be said for the Palestinians. Although Yassir Arafat managed to win backing for his deal with Israel from key elements of the Palestine Liberation Organization, the Palestinians remain split and disorganized on both political and economic issues. The PLO's inability to control its adherents in the territories has led to a rising tide of violence that could derail the peace process.

WILDERNESS MIND-SET. The PLO's confusion is complicating efforts of the U.S. and Europe to coordinate multimillion-dollar aid programs for the occupied territories. Donor nations are expected to meet in Paris in mid-December to sign a two-year program for \$350 million to \$400 million. Yet there is already dissatisfaction with Arafat's approach to development and a feeling that the PLO leader is more interested in getting cash to dole out to followers than in project aid. The Palestinian

Development & Reconstruction Agency, which should be the Palestinians' key development organ, has been packed with Arafat's appointees, causing Yusif A. Sayigh, a prominent Palestinian economist on the board, to threaten to resign.

The problem, observers say, is that the PLO, after years in the wilderness, is having a tough time making the switch from being a government. That leaves them vulnerable to being outmaneuvered by the Israelis and Jordanians, who have a history of joint dealing on Palestinian matters. These countries have tremendous leverage over the emerging Palestinian entity because they control its borders, and they are advanced, sophisticated states—while it is starting almost from scratch.

Caught off guard by the Israeli PLO deal last September, the Jordanians have been making up for lost time through a series of secret meetings with Israeli leaders. The reason for the rush is simple: King Hussein, once master of the West Bank and now ruler of a country where more than half the citizens are of Palestinian origin, did not want his country marginalized or its security threatened by the new Palestinian entity. He is also hoping to get a share of the Western and Arab



money sent to bolster the peace.

Hussein seems to have persuaded the Israelis to approve a prominent role for Jordanian banks in the occupied territories and agree that the Jordanian dinar will be the main currency there. Now, it's the Palestinians' turn to be worried by the pace of events. They fear that economic decisions for the West Bank—about banking, currency, and trade with Israel and Jordan—will be made in Jerusalem and Amman. If Arafat doesn't move quickly to present a more coherent front, the Palestinians will risk being left in the backseat once again.

By John Rossant in Rome, Neal Sandler in Jerusalem, and Owen Ullmann in Washington

GLOBAL WRAPUP

CHANGES AT FIAT

The Agnelli family has had to give up substantial control in Fiat, in exchange for a \$3.3 billion capital injection. Strategic decisions must be approved by a "qualified majority" of 9 out of 11 board members. That gives core shareholders such as Deutsche Bank, Alcatel Alsthom, and Mediobanca a veto. Previously, the Agnellis had tightly controlled the board.

Also, Umberto Agnelli has left the board and the vice-chairmanship, while his older brother Gianni can now stay as chairman until 1996. But Turin insiders say that Gianni, Italy's leading industrialist, plans to retire next year

anyway, paving the way for the first non-Agnelli to get the top job.

CLOSING SKIES

Yearlong negotiations between the U.S. and Britain over a new air-services treaty have turned nasty. The British government is now threatening to reduce flights into London's Heathrow airport by American Airlines Inc. and United Airlines Inc. as of Jan. 12 unless the U.S. gives a one-year approval for British Airways PLC and USAir Inc. to use the same codes on flights departing from 27 American cities. Such code-sharing makes passengers think they're getting a seamless service from the U.S. to Euro-

pean destinations and gives the BA/USAir partnership an edge over transatlantic competitors. The Transportation Dept. has been willing to grant only a 60-day approval.

BUYING OFF FRENCH FARMERS

France is throwing a new sop to its farmers—\$255 million in debt relief and higher pensions—apparently to quell unrest in the event that Paris accepts farm-subsidy cuts in Uruguay Round talks. That could augur well for a world trade deal, as the Dec. 15 deadline nears. But French farm leaders, who are renowned for disruptive demonstrations, claim they still won't take any cuts lying down.



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These courses



These players

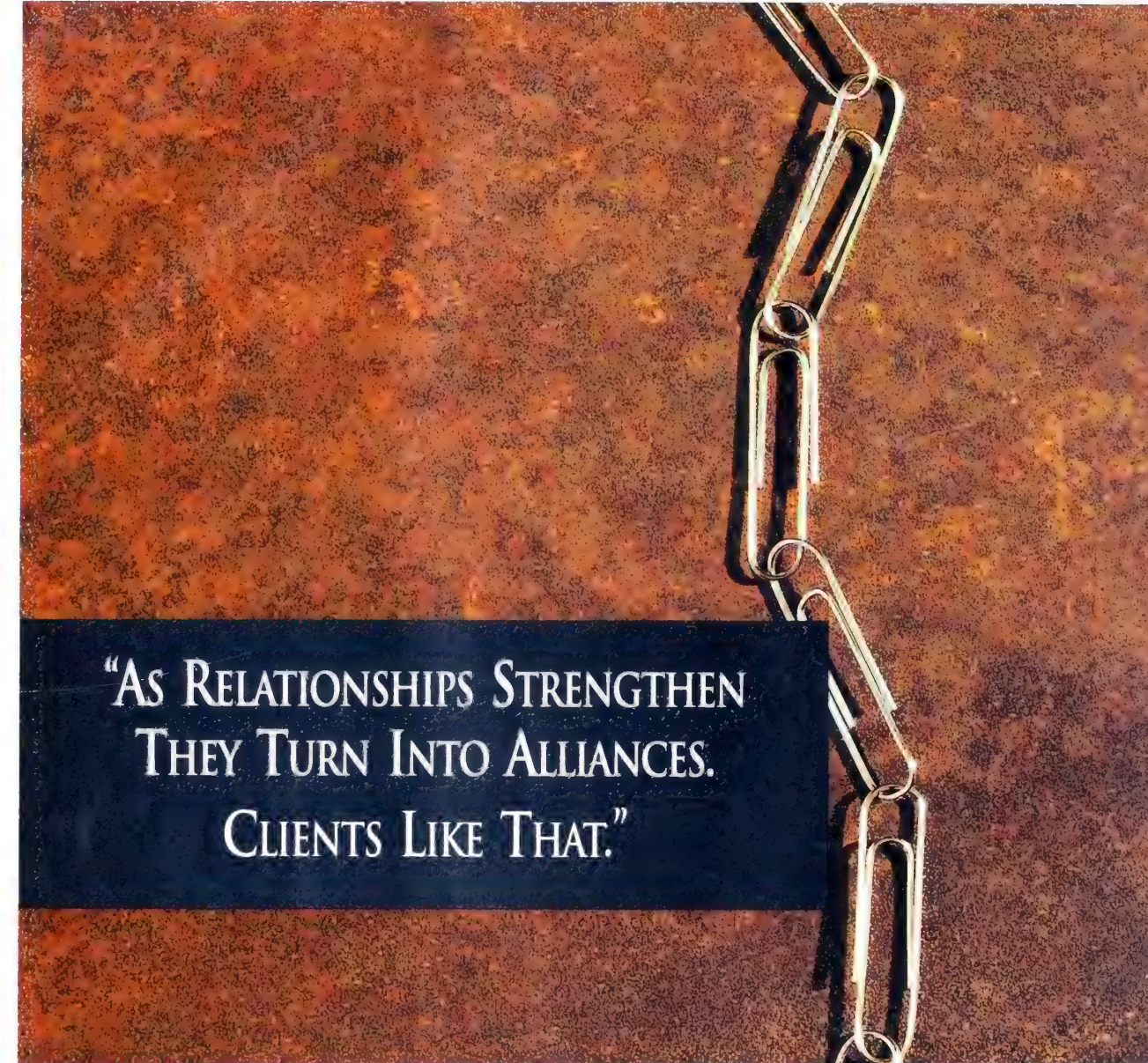
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THERE'S TROUBLE UNDER FORD'S HOOD

Its hot growth in sales and market share looks great. But if you look closer...

At first glance, Ford Motor Co. appears to be hitting on all cylinders. Its U.S. market share is up nearly a full point this year, to a 15-year record 25.4%. Five of Ford's cars and trucks are among the top 10 U.S. sellers, led by the F-series pickup and the Taurus family sedan, and its factories are running overtime to meet demand. Profits have staged a comeback, too. The company announced on Oct. 27 that its earnings in the traditionally weak third quarter stood at \$463 million, compared with a loss of \$272 million a year ago. Revenues climbed 5%, to \$24.5 billion.

But first impressions can be deceiving. A closer look at the No. 2 auto maker's latest earnings shows that profits aren't so hot in its core U.S. car business. Excluding one-time tax credits that added \$171 million to the bottom line of Ford's U.S. auto operations, the unit earned a disappointing \$162 million in the third quarter. Salomon Brothers Inc. reckons that Ford made a sorry \$40 in profit on every vehicle it sold. By contrast, Chrysler Corp. made \$423 million in profits—almost all of it from U.S. auto sales—or \$1,004 a vehicle (chart). Worse, PaineWebber Inc. estimates that Ford's overall profit margin in 1993 could come in at 4.4%—less than half of Chrysler's projected 9%.

MONEY TRUCKS. So what's putting the brakes on? For starters, Ford is being hampered by the huge capital outlays it's making to develop a new generation of transmissions and engines as well as new cars and trucks. "In bringing a car to market, they spend a lot of money—arguably more than they should," says PaineWebber analyst Stephen J. Girsky. And although its sales are strong, Ford still remains too dependent on costly marketing incentives to push its vehicles. Moreover, Ford's product line is less profitable than Chrysler's, since it's lighter on higher-margin minivans and sport-utility vehicles, such as Chrysler's hot Jeep Grand Cherokee.

The unkind comparisons with Chrysler clearly nettle Ford executives. "We do hear people saying, 'Why aren't you

more profitable?'" says Ford Treasurer David N. McCammon. Ford managers acknowledge that auto results could be improved. "I think we're on our way to better financial performance," says Ford Chief Executive Alexander J. Trotman, 60, who took over from retiring Harold A. Poling on Nov. 1.

To be sure, Ford has made great strides in improving its operating health. Unlike ailing General Motors Corp., Ford did its downsizing in the 1980s and has been able to stay fairly lean. Also, Ford leads the Big Three in manufacturing productivity: It uses the fewest worker hours to build a car, according to James E. Harbour, who heads Troy (Mich.) con-

sultant Harbour & Associates Inc.

But Ford has a long way to go before it can hope to match Chrysler's return. Take that little problem of product mix. High-profit trucks, which include minivans and sport-utility vehicles, account for 59% of Chrysler's sales, compared with just 46% of Ford's unit sales. But changing those percentages is no simple matter. Ford's truck factories are already running flat out, and squeezing out capacity to make more trucks will be slow going.

Then there's the problem of incentives, an addiction Ford shares with the rest of the industry. So far this year Ford has spent an average of \$780 per

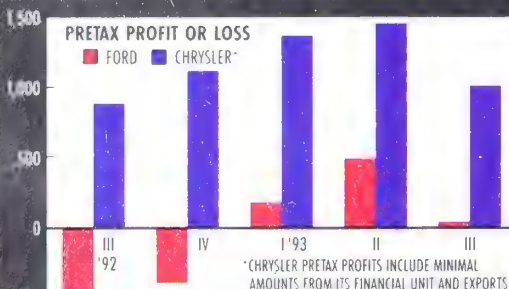
FORD'S HIGH COSTS AND LOW-PROFIT PRODUCTS...

DEVELOPMENT COSTS Ford is spending heavily to develop new engines and transmissions. Its automotive capital spending climbed to \$988 per vehicle in 1992, from \$601 in 1987.

PRODUCT MIX Ford can't produce and sell enough high-profit trucks to improve margins. Trucks account for 46% of its total vehicle sales, compared with 59% at Chrysler. Will have to convert some factory capacity before it can increase truck sales.

STEEP INCENTIVES Cash rebates and lease subsidies are slightly lower than GM's and Chrysler's—but they remain high. Marketing incentives totaled \$1.5 billion in the third quarter, or 11% of revenues, nearly double what they were in the boom years of the 1980s.

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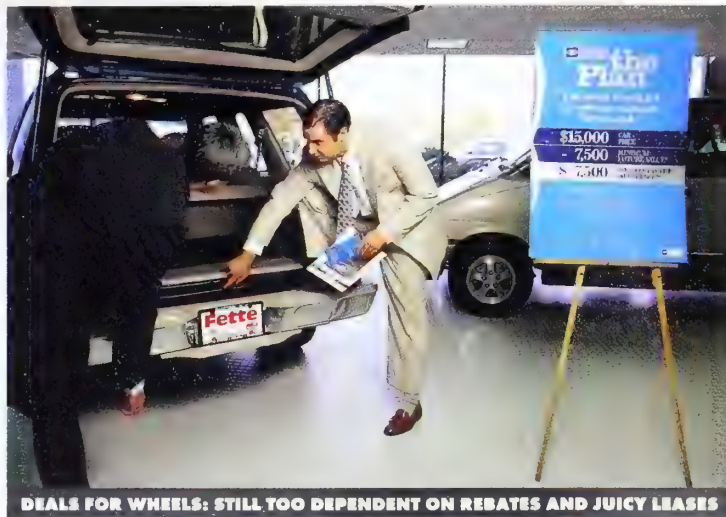
DATA: SALOMON BROTHERS INC., BUSINESS WEEK



vehicle on cash rebates and sweet lease deals. Chrysler and GM won't reveal their marketing costs, but Ford estimates that its competitors are spending more: \$1,020 and \$835, respectively. Still, Ford's marketing incentives totaled \$1.5 billion in the third quarter, or 11% of its U.S. auto revenues—nearly double the rate for incentives in the boom years of the late 1980s.

Ford's biggest headache, though, is its high product-development costs. Part of the problem is the huge amounts Ford is shelling out just to catch up with its competitors in developing new engines and transmissions. Ford delayed such spending in the 1980s, and now it's paying dearly for skimping. Ford's automotive capital spending is up 64% since 1987, to \$988 per vehicle. Meanwhile, Chrysler's capital spending increased just 23%, to \$1,039, in the same period, while GM's actually dipped 5%, to \$749. So far this year, Ford's capital spending is up 15% over last year, to \$4.7 billion.

Ford also lags behind Chrysler in



DEALS FOR WHEELS: STILL TOO DEPENDENT ON REBATES AND JUICY LEASES

money- and time-saving product development innovations, such as assembling teams of designers, engineers, accountants, and marketers to develop vehicles. Industry insiders say Ford's teams are just beginning to come together and have yet to achieve Chrysler-style autonomy and efficiency. That's not all Ford's fault. After all, analysts say, Chrysler's smaller size made implementing the team approach easier. "Ford still hasn't gotten its product development together completely," says David Andrea, a researcher at the University of Michigan's Office for the Study of Automotive Transportation.

BORROWED PARTS. That was clearly the case with the sporty new Ford Mustang, which will be launched in December. Altogether, Ford spent \$700 million over 35 months to develop it. Company executives, who are pleased with the car's development time and cost, point out that the Mustang was the first model since the Taurus to be developed through the team approach. But it's hardly inspiring compared with Chrysler's Dodge Neon. Sure, Chrysler took 31 months and \$1.3 billion to develop the compact. But the Neon is brand-new. And that meant designing a new engine and manual transmission. Chrysler even built a new stamping plant to make the Neon's body.

In contrast, Ford engineers borrowed one-fourth of the Mustang's parts from its predecessor to keep costs down. The car, with a base sticker price of \$13,365, contains a V-6 engine that first debuted in the 1982 Ford Thunderbird. After factoring in expected sales over five years, Harbour figures that Chrysler's development costs will average out to \$750 for each

Neon, compared with \$900 for Ford's Mustang.

Chrysler's Neon looks like an even greater bargain compared with Ford's Mondeo, which made its debut in Europe in the spring. The company spent a breathtaking \$6 billion on the new compact sedan, which will eventually be sold around the world. It will be introduced as the Ford Contour and Mercury Mystique in the U.S. next year. Ford defends the Mondeo's development cost, which includes three body styles, right- and left-hand drive, two new en-

gines and transmissions, and retooling for two assembly and six parts plants. But critics say Ford may not be able to charge enough for the Mondeo to produce a healthy margin. Many analysts figure that the car is a sure money-loser because of its costs. Even shareholders, who have seen Ford's stock climb 45% since the start of the year, to 62%, voice concern about Ford's development costs. "They're building some excellent vehicles," says analyst Ted Shasta of Loomis, Sayles & Co., a major stockholder. "But they're losing sight of how much it costs to develop them and of customers' willingness to pay." Ford won't comment on the Mondeo's profit potential, but points out that it already has 300,000 orders in Europe. "If I were to take its results just so far, I would be happy to be judged on it, says," Trotman.

Ford managers insist that profits will steadily improve. Thanks to heavy capital spending, they say the auto maker is already turning out a new line of engines and transmissions that could boost sales. And while executives defend current development costs as reasonable, they say those expenditures will likely decline now that Ford is applying the team approach to all new models. At the same time, Ford's product mix will shift more toward trucks and vans. Ford introduces its new Windstar minivan next spring and is expanding its capacity to build more of the sold-out Explorer sport-utility vehicle.

Still, McCammon, Ford's treasurer, cautions that a stronger economy is the key to Ford's profitability. If growth picks up and sales rise, Ford's marketing costs could drop, and the company's bottom line take off, he says. But then again, that could be said for the entire industry. Until Ford's managers squeeze out more costs, they may have to learn to live with the unflattering comparisons with Chrysler for some time.

By Kathleen Kerwin and James B. Treece in Dearborn, Mich.



NEW CEO TROTMAN: UNKIND COMPARISONS WITH CHRYSLER NETTLE FORD EXECUTIVES

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The Network Is The Computer

INSIDE THE BLACK BUSINESS NETWORK

A far-flung web of entrepreneurs and executives is driving African American economic growth

In the summer of 1991, Jheryl Busby was in big trouble. The chief executive of Motown Record Co. was desperately trying to save an enterprise rich in tradition, if little else. Motown had an abundant record library, but big names such as Michael Jackson and Smokey Robinson had defected years earlier to labels with deeper pockets. Worse, Motown was having distribution problems, and Busby was in the midst of suing its distributor and part-owner, gi-

ant MCA Inc., for allegedly failing to promote the venerable label and its acts.

So what did Busby do? He turned to the black business community for help. He asked Clarence Avant, an influential, behind-the-scenes music impresario, to arrange for him to plead his case to Earl G. Graves, the flamboyant publisher of *Black Enterprise* magazine. By December, Busby's face was beaming from the magazine's cover on newsstands nationwide. Inside, he talked up plans for

"the new Motown" and lamented MCA's "ineptitude." He spent long hours talking over Motown's situation with Graves, Avant, and other black business luminaries such as Robert L. Johnson, CEO of Black Entertainment Television (BET).

Busby's new friends helped him form a strategy to leverage Motown's platinum brand name to create Motown TV specials and thematic restaurants. Mor-

A GUIDE TO SOME KEY PLAYERS

LINKS: SOCIAL BUSINESS ADV

PETER BYNOE

Developer Chicago real estate
Former owner Denver Nuggets
Negotiator Atlanta's Olympic stadium

BERTRAM LEE

Owner Albimar Communications
Former owner Denver Nuggets
Investor San Antonio Spurs bid
Jesse Jackson fund-raiser

JERROLD WEXLER

Developer Chicago real estate
Former investor Denver Nuggets

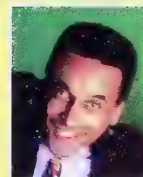


RON BROWN

Commerce Secretary
Investor Albimar Communications, failed bid for San Antonio Spurs

JESSE JACKSON

Operation PUSH
Lobbyist for D.C. statehood



MANNIE JACKSON

Senior V-P Honeywell
Owner Harlem Globetrotters

CAROL MOSE BRAUN
U.S. Senator from I

A. BARRY RAND

Executive V-P, Operations Xerox

WAYMAN SMITH

V-P, Corp. Affairs Anheuser-Busch

KENNETH CHENAULT

Pres., U.S. Travel Related Services American Express

DARWIN DAVIS

Senior V-P Equitable Cos.

JOHN JACOB

President Urban League

HERMAN RUSSELL

Owner Atlanta construction company

JAMES KELLY

Investor Albimar Communications, failed bid for San Antonio Spurs
Married to Washington (D.C.) Mayor Sharon Pratt Kelly



EARL GRAVES

Owner Black Enterprise magazine, Pepsi-Cola of Washington D.C.

EARVIN 'MAGIC' JOHNSON

Former basketball star
Owner Pepsi-Cola of Washington
Patron Malcolm X



JOHN JOHNSON

Owner Ebony, Jet, and EM magazines

SPIKE LEE

Filmmaker Malcolm X

MICHAEL JOHNSON

Former basketball star
Patron Malcolm X



FRANK SAVAGE

Senior V-P Equitable Cos. Provided venture capital to minority-owned firms
Former Chairman Freedom Natl. Bank

EDWARD LEWIS

CEO Essence Communications
Investor Queen of the South Broadcasting
Former Chairman Freedom Natl. Bank

REGINALD LEWIS

(recently deceased)
CEO TLC Beatrix

By this August, it was payback time. The MCA suit was settled in the spring, and PolyGram NV, the new distributor, offered to buy a rejuvenated Motown for \$325 million—five times what Busby and other investors had paid in 1988. Busby, who had owned 10% of the company, will stay on as CEO. Avant will continue to help Motown strategize as the label's new chairman and a member of the PolyGram Holdings Inc. board. Johnson has laid plans to collaborate with Busby on cable-TV projects, including a Diana Ross 30th anniversary special. And with a bright new future,

network draws in everyone from state executives to entrepreneurs and financiers. Here are some notable members and the nature of their ties.

DINKINS
for New York City
investor
City Broadcasting



MARIANNE SPRAGGINS
Managing
director Smith
 Barney Shearson
Top political
fund-raiser

L. DOUGLAS WILDER
Governor Virginia

DSBY
adian
or investor Coke bottling
Malcolm X

D McHENRY
 or Ambassador U.N.
 or Coca-Cola
 or Queen City Broadcasting

Sure, by mainstream standards, the African American business community has a long way to go. According to *Black Enterprise*, the combined sales of the 100 largest black-owned companies to-

The operative concept: Strength in numbers. The deals aren't Paramount-Viacom, but there are plenty of them. This coming April, Avant, New York entrepreneur Percy Sutton, and Chicago broadcaster Eugene Jackson will launch the World African Network, a premium cable channel featuring videos and other programming produced by African Americans. In Gary, Ind., former Mayor Richard Gordon Hatcher was able to bid



Owner Rush Communications, Def Jam Records
Producer HBO hit Def Comedy Jam



PERCY SUTTON
Owner
Apollo Theater,
Inner City
Broadcasting,
World African
Network

EUGENE JACKSON
Owner Unity Broadcasting,
World African Network

**JHERYL
BUSBY**
CEO
Motown
Records

OPRAH WINFREY
Television
personality
Owner Harpo
Productions
Patron Malcolm X



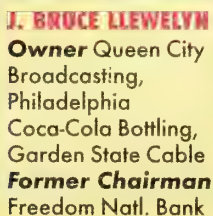
CLARENCE AVANT
Owner World African Network
Investor Inner City Broadcasting
Music producer
Chairman Motown Records

ANDREW BRIMMER
Former Governor
Federal Reserve Board

O.J. SIMPSON
Ex-football star
Investor Queen
City Broadcasting

MICHAEL JACKSON
Singer

GENERAL COLIN POWELL
Former Chairman
 Joint Chiefs of Staff
Onetime aide to former
 Coke president and
 Deputy Defense Secretary
 Charles Duncan



BETTY SHABAZZ
Widow of Malcolm X
Investor Queen City
Broadcasting, Inner
City Broadcasting

JULIUS ERVING
Ex-basketball star
Investor Philadelphia
 Coca-Cola Bottling,
 Queen City Broadcasting

"THERE'S A TREMENDOUS SENSE OF OBLIGATION TO SERVE AS A MENTOR. CAN'T BE LIKE A NORMAL WHITE EXECUTIVE AND DO MY JOB AND GO HOME."

for a lucrative new lake-boat casino license only after calling on several potential investors from the black business elite, including Graves and *Essence* magazine Publisher Edward Lewis.

After black entrepreneur J. Bruce Llewellyn's ABC affiliate in Buffalo ran into financial woes, Granite Broadcasting Corp., whose biggest individual investor is Oprah Winfrey, acquired a 45% stake in October. The talk-show host also helped out when Hollywood financing for *Malcolm X* ran out last year and director Spike Lee approached her, Michael Jordan, Bill Cosby, and others for the cash to finish the film. When Honey-

(page 77). As a result, he and others like him feel a strong responsibility to help open doors. "There is a tremendous sense of obligation to serve as a mentor," says Frank Savage, senior vice-president of Equitable Cos. "I can't be like a normal white executive and just do my job and go home."

It's important to note that the black business network is hardly monolithic. Participation is not a prerequisite for success. Joshua I. Smith, chief executive of Maryland-based Maxima Corp., a \$48 million information-systems management company, is a staunch Republican whose business relies not at all on the

that of other ethnic networks. Largely because of those decades spent agitating for legal and political rights, African Americans have established powerful advocates nationwide in local, state, and federal government. Blacks also have a strong, unified voice for change through such activist groups as the National Association for the Advancement of Colored People and Jesse Jackson's Operation PUSH. Legislation and agitation benefiting minority business is the result. And many of the black business elite are taking full advantage.

LEG UP. A prime example is Bruce Llewellyn, arguably the most prosperous black entrepreneur in mainstream business. In building his three main companies—Philadelphia Coca-Cola Bottling, Queen City Broadcasting, and Garden State Cable Television—he used all the benefits the network has to offer.

Llewellyn proved himself during the 1970s, when he built up Bronx-based Fedco Foods Corp. from \$18 million in sales to the largest minority retailer in the U.S. Annual sales neared \$100 million when he sold it in 1982. After that, he turned to soft-drink bottling and got a leg up with Coke when his cousin General Colin L. Powell, put in a good word with Charles W. Duncan Jr., who was president of Coca-Cola Co. before becoming Deputy Defense Secretary. Powell's boss in the late 1970s. It didn't hurt that Operation PUSH was targeting Coke at the time, charging that it had done little to open its lucrative bottling franchises to minorities.

When he ventured into broadcasting in 1985, Llewellyn was similarly resourceful. First, he tapped a roster of investors that reads like a Who's Who of the African American community. He has drawn on Ed Lewis from *Essence* and Bill Cosby. Betty Shabazz, Malcolm X's widow, invests with Llewellyn, as do wealthy sports figures O. J. Simpson and Julius Erving.

Part of the allure was that during the 1970s, a handful of white and black members of Congress had persuaded the Federal Communications Commission to bestow rich tax advantages on those who sold broadcast properties to minorities. Since the program began, there have been more than 300 such sales. Television properties that make up Queen City and Garden State Cable are among them.

For the black network, the linkage of politics, activism, and business is key. While Caucasian ethnic groups have



AT THE TOP: CEO BUSBY ON THE ROOF OF MOTOWN'S LOS ANGELES HEADQUARTERS

well Senior Vice-President Mannie Jackson wanted to buy the Harlem Globetrotters earlier this year, Graves and BET's Johnson gave him business advice, the rapper Hammer offered insight on the live-entertainment industry, and activist Jesse Jackson lent contacts to investment bankers. Says Johnson, who spent four years as a Globetrotter before joining Honeywell in 1968: "When we work together as a group, there's an exponential expansion of our contacts."

For young African Americans, those contacts are invaluable. Having mentors in high places is an advantage their elders never had. An internal network at Xerox Corp. helped Executive Vice-President A. Barry Rand break through the glass ceiling to become one of the highest-ranking black executives in the U.S.

black business community. And super-lawyer Vernon E. Jordan Jr. takes great pains to underscore his independence, bristling at the notion of lumping black business people into a separate group. "I don't have a role in that network," Jordan says, noting that he's a lawyer, not a businessman. "You have to transcend race in this process."

The fact is, however, that ethnic groups have been networking in this country for years to claim a share of the nation's wealth and power. The Polish did it in Chicago, the Irish in Boston, the Jews and Italians in New York. Cubans are doing it now in Miami, as are Koreans in Los Angeles.

What makes the black network different is its scope. It's national, for one thing. And its reach is far deeper than

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able to gain wealth and fold seamlessly into the white power base, that's not always possible for blacks. Prejudice remains a barrier. "There's a multi-stage process through which you emerge into the mainstream," says Northwestern University economist Marcus Alexis. Blacks have to look at how others have moved along and understand where we are in relationship to where we have to go. This is just the beginning."

Marianne C. Spraggins, a formidable political fund-raiser and managing director of Smith Barney Shearson Inc.'s municipal finance department, compares

modern black networking to the close communication among African Americans in the antebellum South. "I call it an extension of the drum," she says. "We are in communication in one way or another on all levels all the time."

The master communicator is Earl Graves, a canny entrepreneur and socialite whose empire includes one of the nation's most successful Pepsi bottling companies and stakes in countless smaller ventures. He is a director of Chrysler Corp. and a trustee of Howard University. More than anyone else, he is the network's cheerleader.

It was Graves whom former Drexel Burnham Lambert CEO Frederick H. Joseph sought out during the 1980s when—as Joseph says—"I made it my business to find out who knows people" in the black network. Graves hooked him up with a relatively obscure financier named Reginald F. Lewis, and Joseph urged Drexel to finance Lewis' \$985 million acquisition of Beatrice Co.'s international food business in 1987. That created the largest black-owned business in the country, with 1992 revenues of \$1.7 billion. Sadly, Lewis died of a brain tumor last January but was succeeded by

STICKING IT OUT AT XEROX BY STICKING TOGETHER

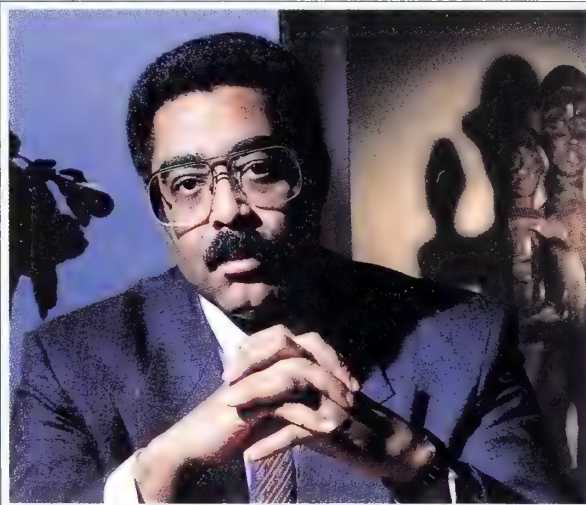
It all started in 1971 with the disappearance of Algy Guy. The 10 other recently hired black sales reps in Xerox Corp.'s Washington (D.C.) office had no idea why their colleague had abruptly left the company. The mystery ate at everyone. "We didn't know what happened, but if it happened to Algy, it could happen to us," recalls Gilbert H. Scott, who joined Xerox earlier that year.

Fearing Guy's failure had something to do with his race, Scott and his fellow African Americans banded together to form a survival network. Wryly naming themselves the "Corporate Few," they met in each other's apartments, coaching one another on presentation skills, sales techniques, and pricing strategies. The three more senior sales reps—A. Barry Rand, William Robinson, and Kent Amos—tutored the others on the nuances of Xerox culture: What to wear, who to cultivate, and what to avoid. It was the subtle stuff that helps shape a career.

"We couldn't risk having low performers," recalls Rand. "We did not have the luxury to be mediocre." If one group member's performance was slipping, the others would lend a hand. "We'd take a day out of our territories and go help," Scott says. "There were 13 people selling in your territory in one day. You would get the recognition for the sales."

Soon, the performance of some group members distinguished them on national level. By 1973, the Washington network contacted two similar groups in California to schedule a national meeting in Philadelphia. About 10 of Xerox' 4,053 black employees showed up.

Fellow workers noticed. Xerox' top brass in Stamford, Conn., noticed. And many were unhappy. "People thought we could be a unionizing effort," says Scott. "They asked, 'How come all these black people are meeting, and what are they trying to do?'" Some employees grumbled, but then-president David T. Kearns backed the idea, squelching most of the complaints.



RAND COULD BECOME XEROX' NEXT CHIEF EXECUTIVE

Several of the Corporate Few thrived, but not all. Kent Amos became renowned within Xerox as the point person for African American issues, and his career suffered. He was transferred "kicking and screaming" from marketing to work in human resources—often a backwater for black employees. That made him Xerox' first black executive, but he felt pigeonholed and left in 1986.

Amos went on to start a management consulting company, but Bill Robinson's fate still haunts the original Corporate Few. Rand says Robinson was simply unable to cope with the

same corporate culture he had trained younger hires to negotiate. "He was the best salesman I ever knew," says Rand. But "trying to understand why he couldn't [really fit in] was too great for him." Robinson's performance slipped. He began drinking. He left Xerox in the mid-1970s.

He died in 1981—shot by police in front of a Maryland convenience store.

Police told the *The Washington Post* at the time that Robinson had a gun and was shooting at them, but witnesses disputed their story. No investigation was held, but Robinson's death serves as a reminder for Rand: No matter how successful you are, he says, "in greater society, if you don't have your corporate card with your title on it, and you're not dressed up with your suit and tie, you can be treated as many black people are—very badly."

Today, Xerox is widely acclaimed for its acceptance of minorities. The internal black network is thriving and 27 of 264 vice-presidents are African American. One of those is Scott, 46, who is vice-president in charge of U.S. field operations for Xerox Business Services.

As for Rand, 48, he's Xerox' executive vice-president for operations and, as one of three top executives in the running to succeed Chairman Paul A. Allaire, he stands a chance of becoming the first black chief executive of a major public company. Rand is proud of that, but he sees Xerox' success at promoting minorities in the context of Corporate America's failure generally. "Xerox stands out," Rand laments. "And it's unfortunate that it does."

By Elizabeth Lesly in Stamford

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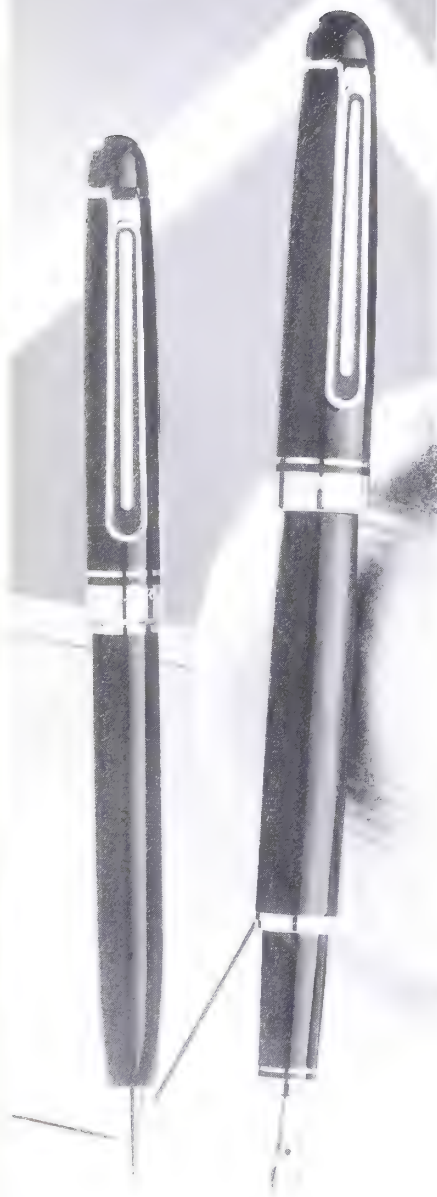
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People

"OUR CHALLENGE IS FINDING A WAY TO MAKE OPPORTUNITIES FOR PEOPLE IN THE INNER CITIES"

his half-brother, Jean S. Fugett Jr. (Beatrice has recently come under investor fire for poor results.)

Graves, 58, has always used *Black Enterprise* as his power base. His friends—from Commerce Secretary Ron Brown to the guy who designed the light fixtures at his Westchester County (N.Y.) estate—are commonly featured. The tone is overwhelmingly upbeat and celebratory—too much so, some complain. Graves founded the magazine in 1970 with a \$175,000 Small Business Administration loan. Alliances with other major black magazines followed.

Graves, Ed Lewis at *Essence*, and John H. Johnson, the publisher of *Ebony* and *Jet*, share market information, throw promotional parties together, and occasionally pay joint calls on advertisers to underscore the significance of black consumers. A few years ago, Graves was bent on winning advertising from Hyatt Corp., but wasn't getting anywhere on his own. So Johnson, who has known Hyatt CEO Jay A. Pritzker for years, arranged a group meeting. Today, Hyatt is a frequent advertiser.

NEW FACES. For a dozen years, Graves and his wife, Barbara, have vacationed regularly with what Graves calls the "Traveling Team"—an informal assortment of longtime friends ranging from outgoing Virginia Governor L. Douglas Wilder to American Express U.S. Travel Related Services President Kenneth I. Chenault. Summers are spent either on Long Island or Martha's Vineyard. And every two years, as part of the National Brotherhood of Skiers event, networkers gather in such places as Vail or Aspen to check out up-and-comers they have invited. Most of the elite belong to the same civic organizations, from the NAACP to the Urban League.

Bringing in new faces is a major pastime of the network. Take Keith T. Clinkscales, now the chief operating officer of entertainment mogul Quincy Jones's *Vibe* magazine, a joint venture with Time Inc. Ventures.

In 1988, while still attending Harvard business school, Clinkscales launched his own magazine, *Urban Profile*, a bimonthly aimed at black college students. Looking for help and advice, he turned to BET's Bob Johnson, Ed Lewis, and Eu-

gene Jackson of the World African Network, among others. They introduced Clinkscales to prospective investors and counseled him on the ins and outs of targeting the black market. The magazine grew to 50,000 subscribers before Clinkscales sold it to Career Communications Group Inc. His success led him to *Vibe*. "It's important to understand who the power players are," he says. "These people provide you with a solid base of contacts. If you treat it right, it's something to hold on to."

Helping along Ivy Leaguers like Clinkscales is crucial. But some worry the network risks leaving large portions of the African American community be-



CLINKSCALES: "A SOLID BASE OF CONTACTS"

hind. "Our greatest challenge is finding a way to make opportunities for the people in the inner cities," says Northwestern's Alexis. Others, such as consultant Andrew F. Brimmer, the first black governor of the Federal Reserve Board, believe holding blacks to such a standard is unfair. "I do not see why black businesses should have any more responsibility than anyone else to improve life for blacks," Brimmer says.

Most networkers fall somewhere in between. While many give copiously to groups such as the Urban League and the United Negro College Fund, the prevailing ethic is that a rising tide lifts all boats. And that leads to another concern: For all its enthusiasm, some worry that the black business community is

continually co-opted by white-owned businesses with deeper pockets.

In the past year, two of the biggest deals for companies owned by African Americans were Busby's sale of Motown to PolyGram and Ivax Corp.'s purchase of hair-care mainstay Johnson Products Co., which was owned by Joan B. Johnson, the former wife of Chicago entrepreneur George E. Johnson. Both deals ended the pockets of prominent black businesspeople. But they ceded ownership to whites. "The black market has been there to support these companies," argues Ronny C. Anderson, associate dean of the University of Chicago business school. Selling "communicates powerlessness. The African American leadership is all too happy to sell out."

KEEPING CONTROL. BET's Bob Johnson resists such thinking. He identifies himself with a new wave of black entrepreneurs who are more concerned with control than ownership. BET's biggest investor is Liberty Media Inc., one of the companies cable giant John C. Malone recently agreed to sell to Bell Atlantic Corp. But for the most part, Johnson calls the shots at BET, and without anyone's investment, he probably wouldn't be in business.

Private, old-line, black-owned companies, Johnson argues, "are going to get rewarded because they don't have the capital to compete." And his views are gaining popularity. Andre Harrell, a 32-year-old Hollywood entrepreneur, just closed a \$75 million deal with MCA to produce movies, music, and TV shows—with an African American bent. "My generation has a little more fun being successful than [the old guard] may have," he says.

Harrell may be the prototypical networker of the new generation. While he has leveraged contacts within the black community—from Motown's Busby to younger entrepreneurs such as Rush Communications' Russell Simmons—MCA's investment is what put his company, Uptown Entertainment, on the map. Harrell staunchly maintains control and retains the right to work with other partners. He is now completing plans to launch an Uptown advertising and media unit, which will be a joint venture with DDB Needham Worldwide Inc.

Harrell sees his mission with MCA as giving black cachet to mainstream audiences. "You have to realize," he explains, "black is pop now." Of course, Busby had similar expectations when he got bed with MCA five years ago, and it didn't work out so well. Harrell expects no such trouble, but there is one thing he can count on: As a successful young entrepreneur, he'll always have the Network to fall back on.

*By Elizabeth Lesly in New York, with
via Mallory in Atlanta*

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One Hanging Shoe Bag,

A Double Dresser,

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And A Hook

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TUMI



ROBERTS: THE
TUMULT IS
"WILDLY
EXCITING"

COMCAST PLAYS HARD TO GET

Brian Roberts isn't selling, but he is sizing up potential partners

Forgive Brian L. Roberts if he seems a bit shell-shocked these days. Consider what the 34-year-old president of Comcast Corp. has been through in the past couple of months. First, he anted up \$500 million to support Barry Diller's hostile bid for Paramount Communications Inc. and found himself in the middle of the noisiest takeover battle since the Crazy Eighties. Then, Bell Atlantic Corp. agreed to buy cable giant Tele-Communications Inc. in a deal worth \$21.4 billion. Suddenly, Comcast was on every matchmaker's list as the next cable acquisition for a telephone company.

Oh, yes—Roberts' wife meanwhile gave birth to their third child, a daughter. "It's wildly exciting," says a bleary-eyed Roberts.

Events have unfolded at a lightning pace. Roberts had barely 24 hours' notice of the Bell Atlantic-TCI merger, a deal that affects Comcast on several lev-

els. TCI President John C. Malone is a partner with Roberts and Diller in QVC Network Inc., which is bidding for Paramount. For Diller and Roberts to proceed in that effort without inciting government trustbusters, Malone has had to agree to relinquish his QVC stake to Bell South Corp. if QVC prevails.

MATING GAME. Even more important, the Bell Atlantic deal has unleashed a frenzy of speculation that other Baby Bells will snap up cable operators. With nearly 3 million subscribers in the East and the Midwest, the nation's third-largest cable operator is a prime target, and its stock has zoomed accordingly (chart). "The landscape has been altered dramatically," says Roberts.

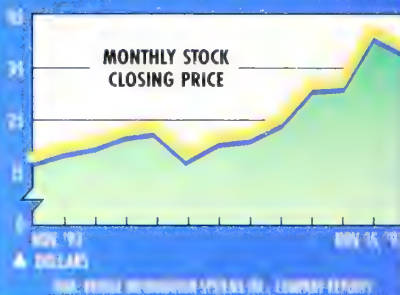
Still, as he juggles phone calls from would-be partners with speeches at industry conferences, the affable Roberts is putting out a strong message: Comcast is not for sale. The Philadelphia company might be interested in joining

COMCAST'S MULTIMEDIA TREASURES...

KEY HOLDINGS OF COMCAST CORP.

- ▶ 2.9 million cable subscribers (nation's third-largest system)
- ▶ 250,000 cellular telephone customers (through interest in Metrophone)
- ▶ Owns 13% of QVC Network
- ▶ 20% owner of Teleport (fiber-optic network in 11 cities) —
- ▶ Small equity stakes in EI Entertainment Television and Turner Broadcasting Systems

...HAVE SENT ITS STOCK SOARING



with phone or cable companies. But Roberts doesn't see the latest round of media mania as a chance to cash out. "There's a role for entrepreneurs," he says. "We can add value."

Actually, Roberts has been talking about the convergence of telephone and cable companies for some time. And while Bell Atlantic has been dabbling in cable TV through experimental systems in northern Virginia, Roberts has pushed Comcast into cellular telephony. The company serves about 250,000 cellular customers in a market stretching from Philadelphia to Joliet, Ill. It also has a 13% stake in NEXTEL Communications Inc., a startup that is developing an alternative cellular system using frequencies once reserved for taxis and other fleet operators.

Roberts is in an enviable position: the mating dance begins. He has the support of his father, Ralph J. Roberts, who founded Comcast and controls 79% of its voting stock. And he has assembled a fat Rolodex in the cable, telephone, and programming businesses. It was Roberts, for example, who enticed Diller to join QVC in 1992.

So for him, the question is: Will Baby Bell—or which long-distance provider—would offer the best deal in joint venture? Which might give him a deal similar to Malone's: vice-chairman charge of the information superhighway

...e assume they've been approached
will be approached by every major
operating company," says Frederick
Moran, an analyst at Salomon Broth-
Inc. "It's an open game."

What Roberts would most like is a
tner that would bring capital—such as
\$15 billion Bell Atlantic and TCI plan
spend on upgrading their networks—
expertise in such areas as interac-
technology. Comcast could use the
n: It has \$4.4 billion in debt from a
ies of cable and cellular telephone ac-
quisitions in the past seven years. Banks
ht be leery of extending its credit
s much further without a cash-rich
phone partner.

For his part, Roberts would bring
nowledge of everything from cable
rketing to cellular phones. Not to
ention an eye for acquisitions. In a
ade, Comcast bought cable systems in
er to grow from 300,000 to 2.9 million
scribers. And Roberts is already cast-
a covetous glance at the 1.6 million
cable subscribers Bell Atlantic will
re to divest because they're in its
one-service area. Bell Atlantic Chair-
n Raymond W. Smith says he'd trade
se customers to Comcast for Comcast
scribers outside his service area.
ncast executives reply that they'd
er buy the subscribers outright.

JUNG GUN. If Smith and Roberts don't
a deal, Comcast has other options.
e company already has a partnership
n US West Inc. and TCI that offers ca-
and phone service in Britain. And
erts can get acquainted with his new
partner, BellSouth. Plus, Roberts
sts Comcast can prosper alone for
r: Operating cash flow grew 12%, to
3 million, in the first nine months of
year, while revenues rose 11%, to \$1
on. Indeed, based on Comcast's soar-
stock and its other investments, J. P.
rgan Securities Inc. estimates that
buyer would have to pony up \$7.8
on for Comcast.

Roberts is also unlikely to be ready to
out. Many of cable's mavericks are
ring retirement age, which makes
m more receptive to the blandish-
its of phone companies. But Roberts
nds to be a force in the evolving
timedia industry for the long term.
ll the same, he can't keep suitors
ay forever. For one thing, rival cable
rators may simply sell out to Baby
s, taking both themselves and the
t attractive phone companies out of
Regulatory scrutiny of the Bell At-
tic merger may also cool the ardor
such deals. For now, says PaineWeb-
Inc. media analyst Christopher Dix-
"The musical chairs are spinning,
the music is still playing." Roberts
is to be sure he has a seat when
music stops.

By Joseph Weber in Philadelphia

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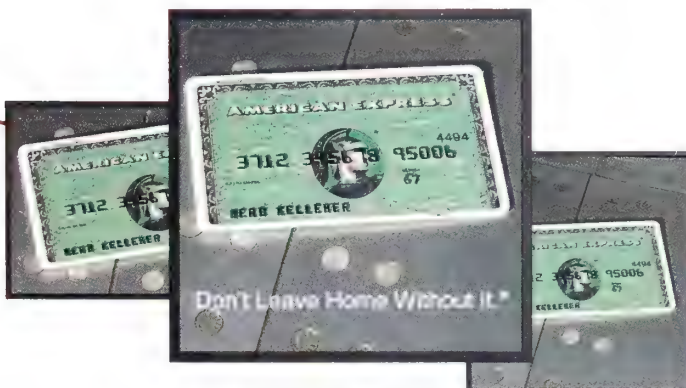


of humor. We've always done it differently. You know, we don't assign seats. Used to be we only had about four people on the whole plane, so the idea of assigned seats just made people laugh. Now the reason is you can turn the airplanes quicker at the gate. And if you can turn an airplane quicker, you can have

people something of value. That's a lot better than getting a mint when you walk off the plane.

The American Express[®] Card is welcomed at airlines all around the world. (Of course, Herb's kind of partial to his corner of the world.)

HERB KELLEHER,
CEO, SOUTHWEST AIRLINES



GOLF

OF THE DUFFER, BY THE DUFFER, FOR THE DUFFER

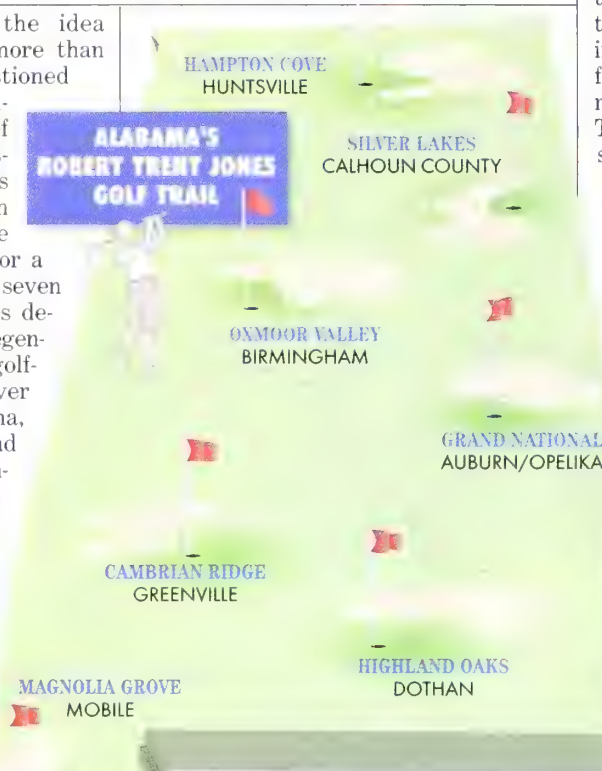
How Alabama retirees are betting on golf bucks

When he hatched the idea three years ago, more than a few people questioned

David Bronner's grip on reality. For months, Bronner, chief executive of Retirement Systems of Alabama, the state's ultraconservative, \$12 billion pension fund, crisscrossed the state trying to win support for a bold plan: to build a string of seven world-class public golf courses designed by one of the sport's legendary architects. The largest golf-course-construction project ever would lure tourists to Alabama, improve the state's image, and generate a profit to boot, Bronner insisted. As if the immensity of the undertaking wasn't bold enough, Bronner expected developers to donate land and cities and counties to provide streets and services, thus limiting the fund's exposure to \$150 million. Recalls Hugh Wheelless, the Coors beer distributor in Dothan, Ala., and one of the Trail's developers: "I thought he was nuts."

Now, with portions of all seven courses of the Robert Trent Jones Golf Trail open to the public, retirees and business leaders are banking on Bronner's gamble. For a fund that traditionally invested in low-risk stocks and bonds while avoiding volatile real estate, the Trail represents a new level of risk. The idea would never have flown without the support of the powerful Alabama Education Assn., whose 70,000 teachers make up a majority of the RSA's members—and of its ruling board. In Bronner's 18 years as head of the fund, its assets have grown upwards of twentyfold, to \$1.2 billion, and mandatory payroll deductions have shrunk. "It's more risky than bonds, but the potential rewards are also greater," says Paul Hubbert, executive director of the AEA, who blessed the Trail.

But a pension fund betting the nest



egg on greens fees? "The idea is so unusual, it's something fund managers are watching very closely," says Steve Curry, director of the Tennessee Consolidated Retirement Fund. But, "it's not something we would try." Gauging the returns on the investment could take two or three years, given that nearly one-fourth of the holes remain under construction. Executives at SunCoast Golf Corp., the RSA-owned private company created to run the Trail, say they need to generate about 60,000 rounds per course per year at the modest charge of \$20 to \$25 per 18 rounds to turn a profit. That's a lot of links-loving tourists.

**CAN ALABAMA BECOME
A GOLFERS' MECCA, A
BIBLE-BELT SCOTLAND?**

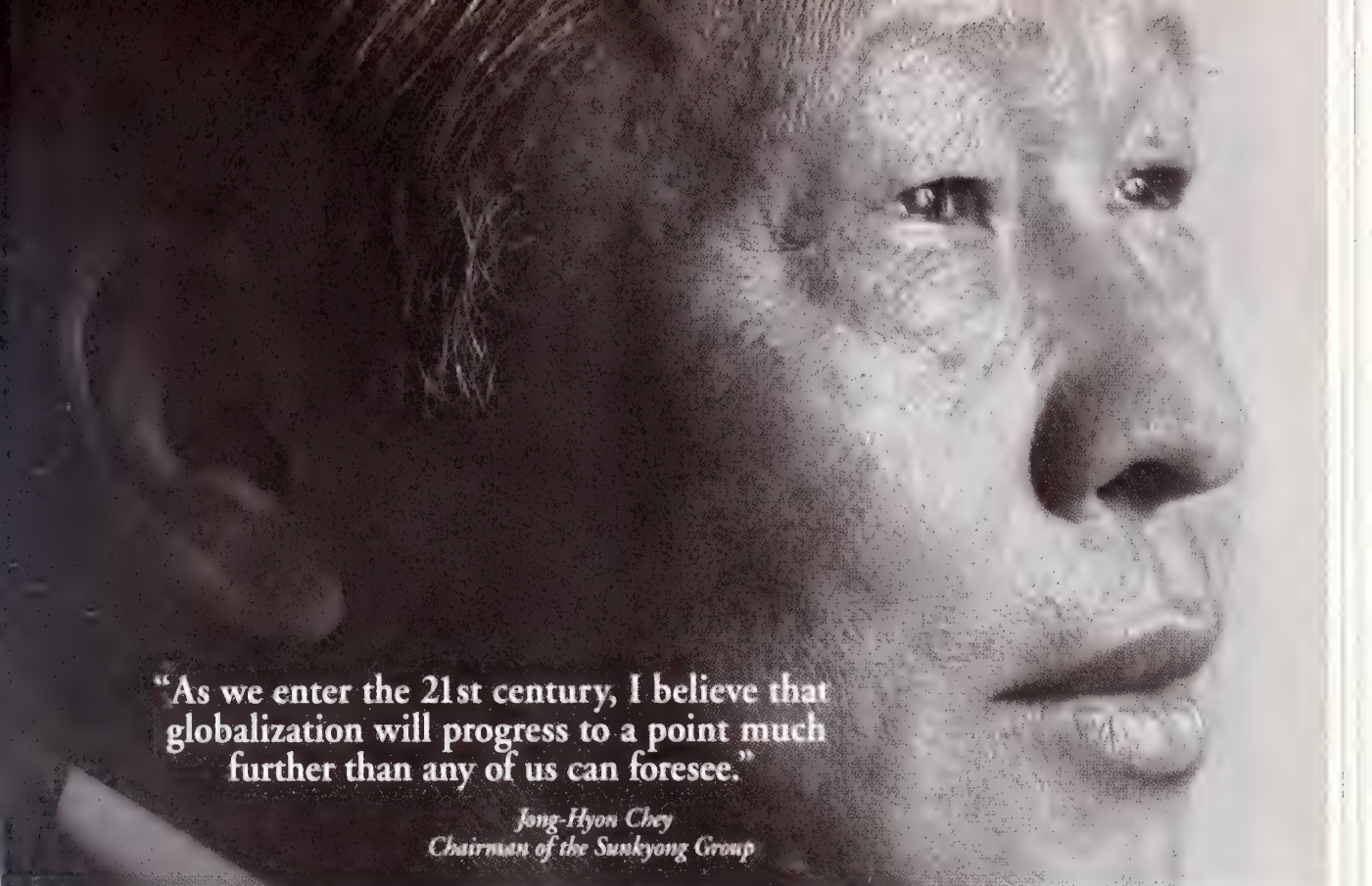
Bronner and his Trail cohorts insist they were motivated in part by a desire to spruce up Alabama's image and make it more attractive for business and tourism. Three years ago, golf contributed to Alabama's reputation for bigotry. When the *Birmingham Post-Herald* reported that no African Americans were members of the posh Shoal Creek Country Club, site of the 1990 Professional Golfers Association championship, a prominent member of the club excused the omission by saying that such social mixing "just isn't done in Birmingham." The PGA soon pushed for all clubs hosting its tournaments to admit black members. Says Bronner: "The Trail, which is open to everyone, ... shows Alabama's not what some people think it is."

"SISTINE CHAPEL." When the RSA was looking for an architect to design the courses, many big names didn't even bother to reply. One famed designer called the pension fund to report that some kook was using its name in connection with a wild project. That it was no joke, the architect hurried up. But 87-year-old Robert Trent Jones, designer of more than 60 courses over the past 40 years, saw the chance to "paint the Sistine Chapel. This is his crowning achievement." The name Trent Jones lent instant credibility to the project.

Had the RSA been forced to pay for all the land and services, the total bill of perhaps \$300 million might have been too much for the state to swallow. But the cooperative coalition of developers, local officials, and the fund spread the risk—and the chance for reward. Coors king Wheelless donated 400 acres for one course and began selling off adjacent lots that fetched as much as \$125,000 each. "That was the best donation I ever made," he crowed. Similar developments, aided by local governments eager to provide roads and sewers at taxpayer expense, are sprouting near the other six courses. Even there's been no hue and cry from taxpayers—so far. And the teachers whose money is at risk, says the AEA's Hubbert, "have tremendous faith in Bronner."

Designer Jones predicts that one or more of the courses will host the U.S. Open tournament, a rarity for a public course—and a litmus test for greatness. But to truly be a success, the Trail must turn Alabama into a golfing mecca, the Scotland of the Bible Belt. If it doesn't, the state's retirees are sure to feel a divot—in the wallet.

By Keith Dunnivant in Huntsville, Ala.



"As we enter the 21st century, I believe that globalization will progress to a point much further than any of us can foresee."

*Jong-Hyon Chey
Chairman of the Sunkyong Group*

With annual revenues of more than \$14 billion and over 22,000 employees on five continents, Sunkyong is dedicated to globalization. Leadership in the fields of energy, international trade, petrochemical products and engineering & construction places Sunkyong in the top five business groups in Korea. We have growing commitments in fine and specialty chemicals, engineering plastics and pharmaceuticals as well as telecommunications, distribution and financial services.

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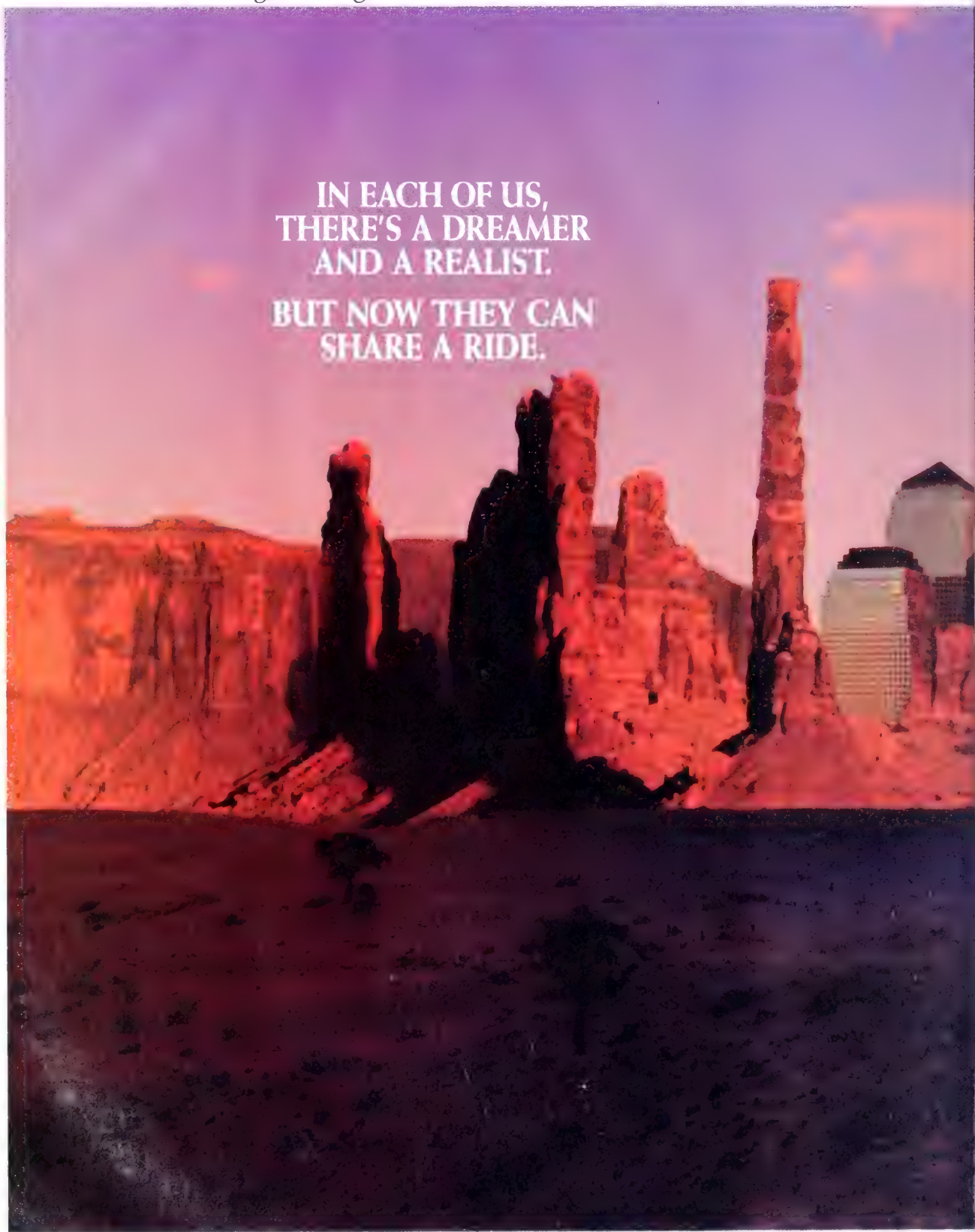
These alliances reflect the focused application of time, energy and resources required for a shared understanding of objectives – a shared vision of economic globalization. A vision we at Sunkyong are dedicated to making a reality.

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HAVE YOU DRIVEN
A FORD LATELY?



A CARDIAC CRUSADER HEADS FOR MAIN STREET

Will Dr. Ornish's no-surgery heart-disease plan work on a large scale?

Keeping up with Dr. Dean Ornish, heart doctor and best-selling author, is a little like following around a pro football team. From Denver to San Francisco, New York to Omaha, he crisscrosses the U.S. pushing his program for improving health and reversing heart disease by persuading Americans to give up the high-fat, tobacco-puffing, stress-filled lifestyle many lead. His own pace is frenetic: One day, a Cable News Network crew clogs his Sausalito (Calif.) office. On another, he greets a standing-room crowd at New York's Museum of Natural History. Still another finds Ornish advising Hillary Rodham Clinton's health-care task force.

It isn't the schedule of an ordinary

research scientist, but then, Ornish isn't ordinary. In the venerable world of biomedical research, he's an enigma, straddling the abyss between traditional and alternative medicine. In 1990, Ornish provided the first hard evidence that major lifestyle changes can do what scientists thought impossible: reverse heart disease—unclog arteries—without the use of drugs or surgery. The key is a very low-fat vegetarian diet, moderate exercise, no smoking, and cutting stress with meditation and group support. At the American Heart Assn.'s (AHA) annual meeting on Nov. 10, Ornish reported that the benefits—including a dramatic lessening of chest pain, or angina—continue after three or more years for most of his first 28 patients.

These results have helped propel Ornish, 40, to new professional and busi-

ness heights. He has three best-sellers including *Dr. Dean Ornish's Program for Reversing Heart Disease* (1991) and June's diet book, *Eat More, Weigh Less*. Through his nonprofit Preventive Medicine Research Institute, Ornish hosts quarterly retreats, at up to \$3,000 a week, for people who want to try his program. With food giant ConAgra Inc., he has created vegetarian frozen entrees for his followers. And his reach is expanding.

The crusading doctor has a new company, Ornish Health Programs Inc., that is licensing his concept to six hospitals, including Beth Israel Medical Center in New York and Immanuel Medical Center in Omaha. Mutual of Omaha Insurance Co. will reimburse patients for the \$5,000 cost of a year's treatment, says Ornish. Other insurers may soon follow suit. The economics are enticing. Other heart-disease treatments include angioplasty, at \$18,000, and bypass surgery, at \$43,000.

YOGA IS KEY. Critics see less here than meets the eye and question whether Ornish's plan can succeed outside his original group. It starts with a two-day retreat, followed by 10 hours of meetings weekly for three months, then one meeting a week for nine months. Patients learn to prepare gourmet vegetarian meals, practice yoga, and meditate. "A

percentage of the patient population that can do the diet is small," argues Dr. Robert Rosenfeld, director of preventive cardiology at Rush Heart Institute in Chicago. "Most people probably don't have the time or resources." Adds Dr. Richard Havel, professor of medicine at the University of California in San Francisco: "Most patients are unlikely to go on a low-fat diet when they can take drugs along with a mild diet change."

Other critics focus on Ornish's role as a pied piper—and say a psychological boost he gives his patients may disappear when hospitals take over. "He's basically a cult figure who took a bunch of neurotic guys who thought they were going to die, got commitment, and pushed it into a big thing," says Dr. C. Wayne Cline, an associate clinical professor of medicine at Georgetown Washington University in Washington. "He does have aspects of a guru, and that makes people nervous," says Dr. Marion Nestle, chairman of the nutrition department at New York University. Yet, she adds: "From a

ORNISH'S ENTERPRISES

The vehicles for marketing Dr. Dean Ornish's prescription for healthy living:

HOSPITAL DEALS

A new company, Ornish Health Programs Inc., is licensing the doctor's diet, exercise, and stress-management program to six hospitals, which charge patients \$5,000 for one year of treatment. Mutual of Omaha will pick up the tab for patients it insures.

BOOKS

Ornish has written three best-selling books, including *Reversing Heart Disease*, with 430,000 copies in print. His new diet book, *Eat More, Weigh Less*, has 440,000 copies in circulation.

FOODS

ConAgra has hired Ornish as a consultant for a line of vegetarian frozen entrees that conform to his diet. The LifeChoice meals are sold by mail order starting at \$3 per entrée.

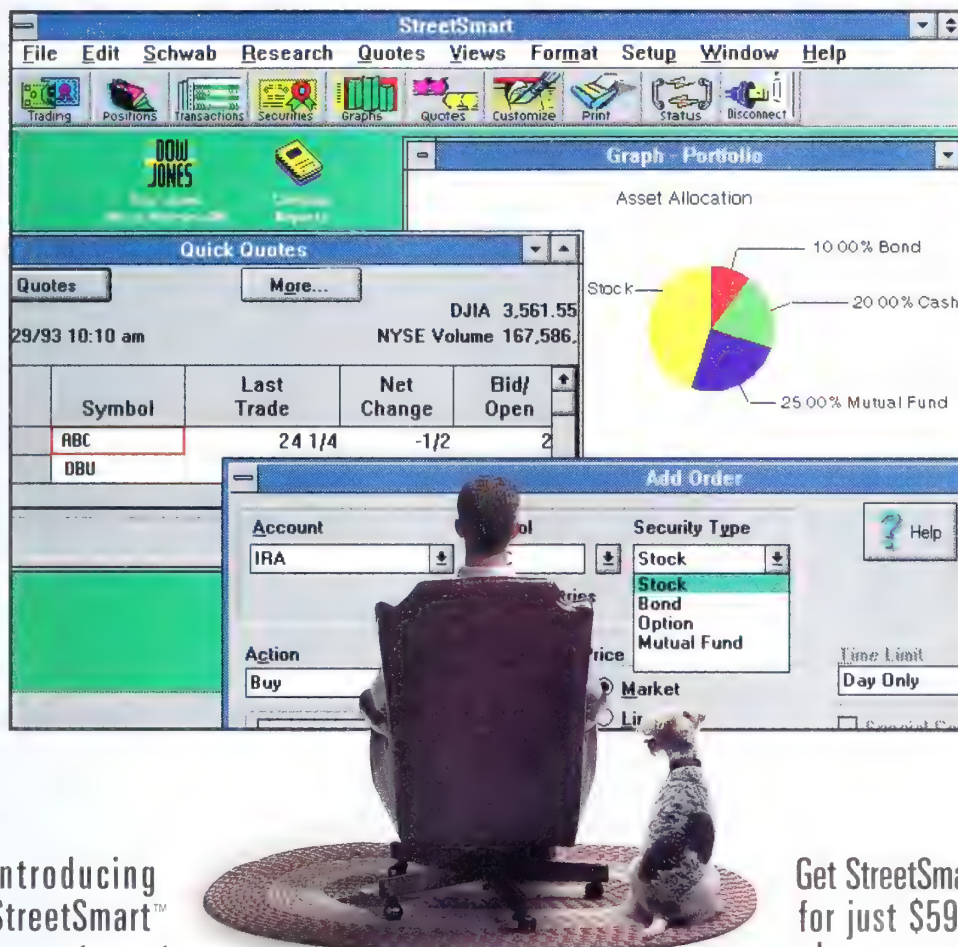
SEMINARS

Quarterly, Ornish offers a nonprofit, week-long retreat for those who want to try his plan.

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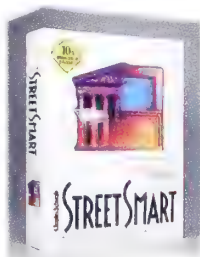


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She's in charge now.

In what are extraordinary times, it is even possible to imagine produce stands on roads once better suited for tanks. Throughout former Communist countries, checkpoints—and markets—are becoming open.

Although the free world won the Cold War, millions of former Communist citizens are winners, too. Barriers to democracy and the private enterprise system are being lifted throughout Eastern Europe.

Many factors led to this remarkable turn of events, but one stands especially tall—the heroic contributions of the men and women who have so ably and unselfishly served their country and the defense of freedom throughout the world.

It is a privilege for us to support such an extraordinary team. And we salute those whose dedication and courage not only enrich the world, but also reinforce one of history's most painful yet valued lessons.

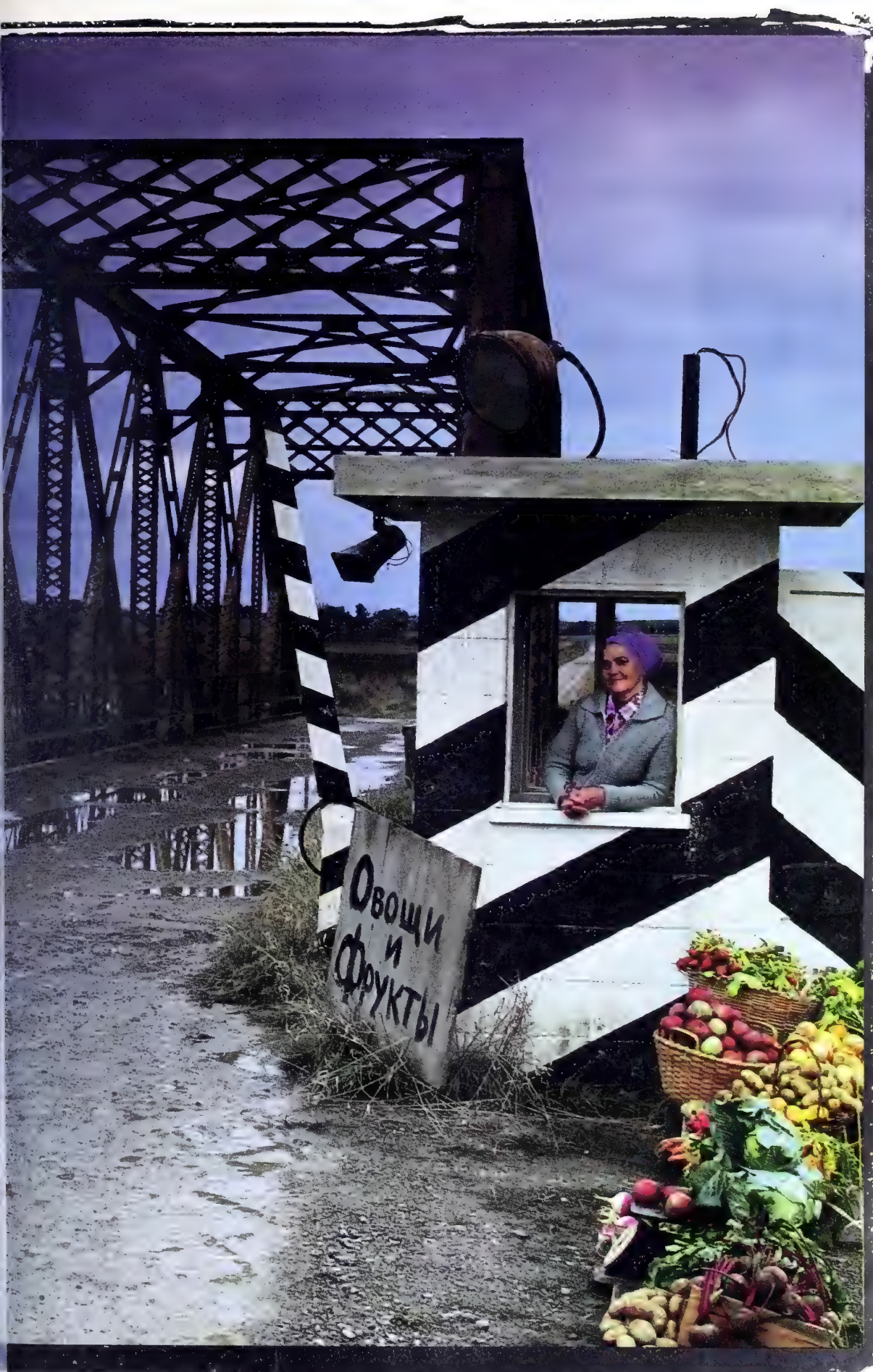
That freedom is not easily—nor permanently—won.

*On April 2,
as the result of
its combination
with GE's
aerospace businesses,
Martin Marietta
became the world's
largest aerospace
electronics
company.*

MARTIN MARIETTA

6801 ROCKLEDGE DRIVE, BETHESDA, MARYLAND 20817





scientific standpoint, Ornish's work is rigorous, and he deserves all the recognition he's getting."

For his part, Ornish says his study patients were "not weird people, even though they live in California." Half worked, had kids, and weren't particularly wealthy, he says. Moreover, drug therapy and surgery don't get at the behavioral or psychological issues—such as stress—that help cause heart disease.

And cholesterol-lowering drugs are expensive, often must be taken for life, and can have serious side effects. Victor Karpenko, 72, a retired nuclear engineer from Danville, Calif., considered all that in 1987, when his doctor advised bypass surgery for one fully clogged and two partially blocked arteries. Instead, he signed up for Ornish's program. "It's not easy to follow," Karpenko concedes, noting that support groups go against his ingrained individualism. Still, his once closed artery is 72% blocked now, and his cholesterol reading is down to 150 from 290. Ornish "saved my life," he says.

BYPASS AS METAPHOR. Some detractors may be reacting to Ornish's unorthodox methods. He graduated from Baylor College of Medicine in Houston and did his residency at prestigious Massachusetts General Hospital, but he is just as comfortable talking about curing an American epidemic of loneliness as he is discussing blood flow to the heart. His second book is dedicated in part to Swami Satchidananda, a spiritual teacher Ornish met in 1972, when he was ill and seriously depressed. Satchidananda's meditation techniques are part of Ornish's Lifestyle program.

Ornish's ideas took shape at Baylor, where he watched renowned bypass surgeon Michael E. DeBakey in action. Ornish was distressed to see patients go home thinking they were cured—then resume their self-destructive habits and show up a few years later needing another operation. "Bypass surgery became a metaphor for an incomplete approach to dealing with a life-threatening problem," he says.

So in 1977, Ornish took a year off from med school to do the first trial of his system. Ten patients were sequestered in a hotel, eating a vegetarian diet with just 10% of calories from fat. After a month, they reported a dramatic lessening of chest pain. In 1980, Ornish began another trial, of 48 patients who were randomly assigned to either his program or to "usual care"—moderate exercise and the 30%-fat diet recommended by the AHA. Again, patients on Ornish's regimen reported less chest

pain, and their hearts pumped blood more normally. He published these results in 1983 in the *Journal of the American Medical Assn.*

After his residency, Ornish moved to San Francisco with his collaborator (now his wife), Dr. Shirley E. Brown, and tried to raise money for a trial. He was rebuffed by the AHA and the National Institutes of Health, whose experts felt that lifestyle changes alone couldn't re-



verse heart disease—certainly not in one year. But Ornish found believers among wealthy businesspeople, including Houston real estate developer Gerald Hines and former Texas Air Corp. Chairman Frank A. Lorenzo. "Texas is a wonderful place," says Ornish, a Dallas native. "There's not the sense of entrenchment there is in, say, Boston, where you're not supposed to do medical research until you've finished all your training."

His well-heeled supporters notwithstanding, Ornish spent the mid-1980s working on a shoestring. With what has become a trademark single-mindedness, he held meetings in his home and got famous chefs to volunteer to teach vegetarian cooking. "From one month to the next, I usually didn't know where the money would come from," he says. But

by mid-1988, he had enrolled 48 patients in a one-year trial—again, with half signed to "usual care." In the test group there was a 91% reduction in frequency and severity of chest pain, and coronary arteries widened in 18 of the 22 people. By contrast, 10 of the 19 people in the control group got worse.

Ornish hasn't looked back since. In 1990, he got \$1 million from the National Heart, Lung & Blood Institute to c-

EYE APPEAL:
DISHES
THAT MEET
ORNISH'S
GUIDELINES

continue his study three more years. The publication of *Reversing Heart Disease* and a public television documentary helped

spread his philosophy. Last year Ornish received 10,000 inquiries.

The decision to license his program to hospitals is another unconventional idea: Ornish wanted to see if it can work in the general population, not just in a select group. He also hopes to show that the changes will stick after the first year. A multicenter trial

to prove that would cost \$200 million, Ornish estimates—much more than NIH would fund. The next-best approach, he figures, is to work with hospitals. So far, he says, more than 100 have contacted him. Dr. Steven F. Horowitz, chief of cardiology at Beth Israel, runs the Ornish program there, says the hospital will probably only break even at first. But, he adds: "It's almost medical malpractice not to do it."

IMPARTIAL REVIEW. Some scientists detect in Ornish's best-sellers and unabashed marketing of his plan an unseemly commercial instinct. "It looks like it's coming a business, and whenever you're in business, one has to wonder about the objectivity of the person doing the research," says Havel. To deflect such complaints, Ornish makes sure to hire doctors who are either skeptical or involved in his trial review his data. And he bristles at the suggestion of a monetary motive. His trials and retreats are run on a nonprofit basis, and his hospital deals are "a break-even proposition," he says. "Making money has never been of primary or secondary interest to me." Ornish won't reveal his income.

For now, critics are in the minority. The two hospitals that have started the program have waiting lists. And critics say that more and more patients with weight or cholesterol problems are trying Ornish's diet on their own. So after a year or two, the evidence should build on whether his program is just another California fad—or a turning point in preventive medicine.

By Naomi Freundlich in New York with bureau reports

DR. ORNISH'S RECOMMENDED DAILY DIET

- ▶ Excludes all oils
- ▶ Has no animal products except nonfat milk, egg whites, and yogurt
- ▶ Allows fewer than 10% of calories to come from fat
- ▶ Has negligible cholesterol (less than 5 mg)
- ▶ Excludes foods high in saturated fat (such as avocados, nuts, and seeds)
- ▶ Is high in fiber and carbohydrates
- ▶ Limits alcohol to less than 2 oz.
- ▶ Excludes caffeine and MSG
- ▶ Allows moderate use of salt and sugar

DATA. REVERSING HEART DISEASE

Tune in as a multinational group of TV executives wrap up a contract to allow their respective viewers to watch the multi-lingual

tion of "I Love Lucy," on demand,

where on Earth, any time

day or night. From

lywood, Frankfurt,

yo, Moscow, Rio,

I Johannesburg,

y eye each other

video conference

l as a computer

antly translates their

nments and repeats

n, through voice synthesis,

he other's native tongues. After

ckling through part of a vintage episode

ieved from an instantly accessible database

ated in Omaha, Nebraska) and

n modifying charts of guaranteed

ience and revenue projections, the

cutives don pressure-sensitive

tronic gloves and seal the multi-

ral deal with long-distance virtual

dshakes.

Fiction - but not science fiction. All the technologies required, both for the business meeting and the multi-lingual "Lucy," are either

on the market today or in develop-

ment. Meanwhile, the "infor-

mation highway" is under

construction worldwide.

It will enable the wide-

spread use of a

remarkable new set

of telecommunica-

tions, computing, and

interactive applications

that will change business,

entertainment, education, and

personal life worldwide.

Business Week's 1993 Information Highways symposium considered the growing ubiquitousness

of these technologies and explored how they are likely to revolutionize life.

The information highway popularly describes what technicians call "broadband networks," high-speed, high-performance supercomputers with an array of wireless links,

Information Highways 1993

THE COMPUTERIZATION OF BUSINESS AND SOCIETY

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satellite relays, and fiber optic cables to feed data, voice, and video images into the same coaxial cables and copper wires that constitute most of today's home and office communications infrastructure. This hybrid architecture promises unprecedented access to data, images, and general communication with the added benefit of two-way interactivity where one-way media now prevail.

In a vivid example of how the information highway already works, U.S. Secretary of Labor Robert Reich entered McGraw-Hill's Manhattan headquarters through a two-way video link arranged by video conference pioneer PictureTel Corporation. From his Washington office, Secretary Reich took advantage of the interactive technology by asking delegates to answer a question with a show of hands — and then chided two people in the back of the auditorium for failing to participate.

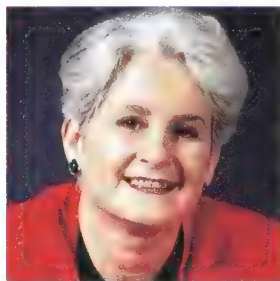
Secretary Reich spoke enthusiastically about competitiveness. He sees significant benefits from a U.S. corporate "communications infrastructure, second to none, to link America together and make this the most highly productive nation in the world."

The Secretary referred to his eight- and 12-year-old boys whom he often sees tapping away at their computers. Information technology "enables my two sons to become even greater potential players in the world economy," Reich said, but "there are a lot of young people in Washington, D.C. who don't have computers and are not going to be hooked into the future. It is very critical for us to make sure everybody gains from this technology."

If predictions are right, the gains can be tremendous, the potential limitless. Those already active in hot cyberspace (that's the term for prime sites along the information highway) compare themselves to Lewis and Clark striding into the American West.

Information Highways 1993

The Computerization of Business and Society



ELLEN HANCOCK

Senior Vice President
and Group Executive
IBM Corporation

"The telegraph, telephone, and television have all had profound impact on society. Wide-spread, high-speed networking will be a breakthrough as far reaching as any of those technologies."



GARY WEIS

President and COO
Advantis

"Business will require low-cost local access, a high bandwidth switching backbone, rich application content and appropriate network management, administration and security."

society. Wide-spread, high-speed networking will be a breakthrough as far reaching as any of those technologies.

"The world's libraries, its history and sciences, music and arts, will all come within reach of every school, perhaps every home," Hancock continued. "Doctors will use networks to consult their colleagues quickly, wherever they are, instantly sharing x-ray images, photographs, data, and more, bringing medicine to a new level of effectiveness. The technologies emerging from our laboratories today have made all these ideas feasible."

How will the highway accommodate Mozart, the Mona Lisa, and medical charts? Asynchronous Transfer Mode — or ATM — technology can propel assorted data over a single high-speed network. "ATM," says Hancock, "promises to be something seldom achieved in this industry: a truly open standard, widely implemented, embraced by all the major suppliers." IBM plans to offer ATM-based products in 1994.

Hancock observes that building these highways is a monumental task requiring extensive cooperation and strategic alliances both within and beyond the computer industry. "When you're talking about far-reaching information highways on a national scale, no single company can go it alone." IBM Networking Systems has developed strategic products with Siemens, Chipcom and Network Equipment Technology. Even an IBM rival as fierce as Digital Equipment Corporation announced last August that it had licensed IBM Networking Systems' NetView/6000 network management product for its operating system.

Companies creating networks such as those Hancock described might take the advice offered by **Gary Weis**, President and COO of Advantis. A \$1.3 billion company formed by IBM and Sears, Roebuck and Co., Advantis specializes in customized network solutions and value-added services, including electronic messaging and access to more than 2,000 data bases and bulletin boards. "For a 'national information infrastructure' to be commercially viable," Weis declared, "business will require low-cost local access, a high bandwidth switching backbone, rich application content and appropriate network management, administration and security."

The Louvre in Your Living Room

"History has proven the value of information networks," says **Ellen Hancock**, Senior Vice President and Group Executive, IBM Corporation. "The telegraph, telephone, and television have all had a profound impact on

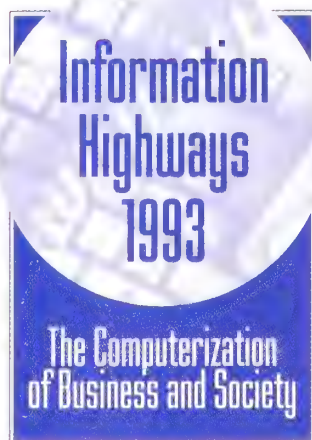
Profits Will Come

Network companies have invested half a trillion dollars in hardware, software, and cable to create the initial lanes of the information way. "If you build the highway, profits will follow," predicts **Bruce Benson**, Lead Partner in Price Waterhouse's Entertainment and Media Group. He observes that when Thomas Edison invented the light bulb, "there were no power lines, no generators, and certainly no electrical wiring into houses." But soon after those wires were installed, they fueled much more than just Edison's creation. Who could have foreseen that those same lines would power televisions, computers, VCRs, and CD players? Alexander Graham Bell's telephone, likewise, spawned the radio, the machine, direct-response marketing and funding up the road, wireless personal communications services. The information highway, now considered primarily a means to transport entertainment, data, and voice communications, will bring products and innovations to astound even the most imaginative of visionaries today. They will enrich those who conceive of the light of tomorrow.

Benson sees the information highway as "the great mountain in front of us. We can't go downhill and we can't skirt it if we want to be successful." Daunting though this challenge may be, Benson believes "the collective brain power and industrial strength" available today put achievement within grasp. "We must build the information highway," Benson says. "I think the future is in our hands and it's the gift from our generation to future generations."

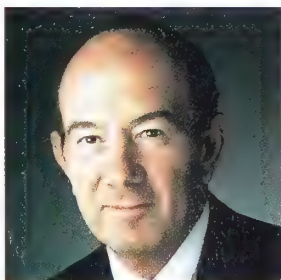
Back in the Lion Tamers

Despite all the announcements, breast-feeding and hoopla, in essence the country is waiting for the policy changes and the greater investments needed to make the information highway a working reality," said **William L. Weiss**, Chairman & CEO of Ameritech Corporation, the globally-involved midwestern regional Bell company. Weiss cited a UC Berkeley study which concluded that, as a result of what it calls America's ineffective and disorienting regulatory climate, "the United States is



BRUCE BENSON
Lead Partner, Entertainment
and Media Group
Price Waterhouse

The information highway is the next great mountain in front of us. We can't go back downhill and we can't skirt it if we want to be successful."



WILLIAM L. WEISS
Chairman & CEO
Ameritech Corporation

"Get out the chair and whip and get government back in its cage."

caught in the paradox of promoting investment where it is not needed and starving it where it is essential." Weiss lamented that the US is behind many other industrial nations in its high technology investment and development. "Except for Argentina," Weiss said, "the US is the only country that is developing less in telecommunications today than it was in 1984."

The solution? "Get out the chair and whip and get government back in its cage." Rather than micromanage and over-regulate this industry, Weiss suggests that government could help by offering a broad vision for the future, speeding-up the licensing of new technologies and access to bandwidth, and "encouraging private development of a national broadband infrastructure — if by no other means, then by at least staying out of the way."

W. Bowman Cutter, Deputy Assistant to the President for Economic Policy, signaled an essentially cooperative stance on the part of the Clinton Administration. "The information infrastructure is inherently private sector in ownership, construction and operation," Cutter said. "Our sense is that we should create competition, and then keep the herd headed roughly west."

Back to the Future

One way or another, the information highway is coming. But what sort of vehicles will it carry? And who will control the flow of traffic?

Keith L. Reinhard, Chairman and CEO, DDB Needham Worldwide, sees the highway as a "Back to the Future" experience for marketers and advertisers. Before TV, he notes, the consumer "set the appointment," deciding, for instance, whether or not to let in a door-to-door salesman. With the arrival of TV, the advertiser committed what Reinhard calls "an unnatural act" — setting the appointment himself and coming directly into the consumer's home via commercial breaks. The information highway, Reinhard says, will be a return to the days of traditional, personal marketing, where the customer decides when and how to be addressed. "With the new interactive technologies, a viewer will have the potential of complete control. He may receive information about anything he wants, any time he wants" including detailed

product and price data, from the comfort of his living room sofa. He also may choose never to receive such information.

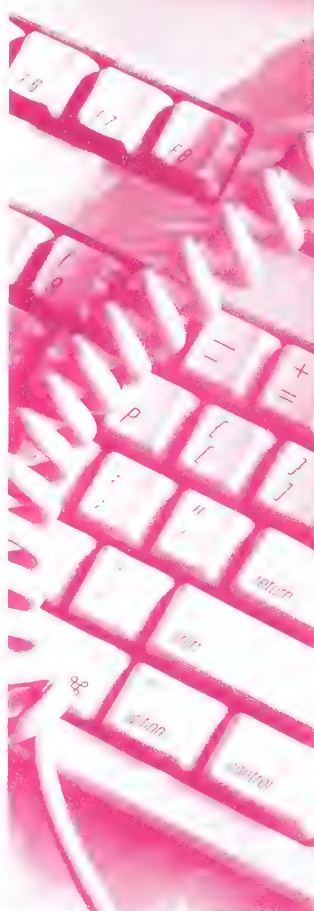
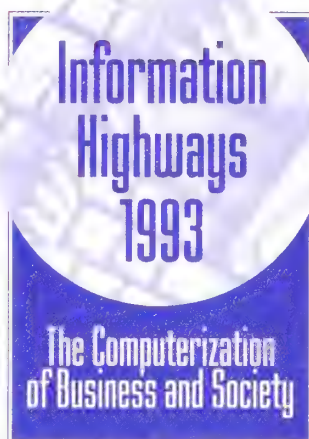
No More Crash Dummies

Beyond new ways to reach consumers, the highway offers business interactive internal communication. At the conference, both Ameritech and Advantis displayed state-of-the-art systems to permit managers in multiple cities to link their voices, faces, spreadsheets, data, and images, on a worldwide basis, through supercomputer-driven digital networks. One conference delegate in New York discussed a pie chart with an Ameritech employee in Houston and, on-line, made adjustments to it which appeared simultaneously on both their computer screens.

Sheryl Handler, Chairman and CEO of Thinking Machines Corporation says the supercomputers — the smart part of the highway — will allow “informational tasks to replace industrial tasks.” For example, the old crash-dummy type of test-car collision “involved crashing an old-fashioned car into old-fashioned brick wall.” “Now,” she explains, “a mathematical car hits a mathematical brick wall,” yielding infinitely more detailed results, and distributing the resultant data more rapidly and in a more defined manner.

If this new technology promises industry painless car crashes, what's in store for home viewers? Some people wonder if increasingly exciting video games are all consumers will see. As **John Heistand**, Senior Vice-President of Electronic Arts, asked, “Will Super Mario Brothers be the key to the Information Superhighway?”

While heightened video games are a given, traditional TV game shows will continue to become two-way affairs. As **John E. Galmiche, III**, C.E.O. of Interactive Systems, pointed out, “Interactive Wheel of Fortune” sold 200,000 hand-held TV units in conjunction with 200 stations which broadcast the program, allowing viewers at home to play along with in-studio contestants. The company also markets TV Terrier, a stuffed toy dog with an electronic sensor that allows it to interact with commands embedded



Deroy Murdock is a New York writer and President of Loud & Clear Communications, a marketing and media consultancy.

in several videotapes created by Hollywood producers Sid and Marty Krofft. Some 700,000 units will land on store shelves this Christmas.

“A viewer with 10 channels is a couch potato,” Jordi Rey, a Spanish interactive TV executive, recently told *The International Journal of ITV*. “But 500 channels will have him looking more like mashed potatoes. Interactive television must enhance, not dominate, our lives. A symposium panelist wondered how the public will respond to interactive soap operas whose plots change daily according to viewer feedback.”

“We stand at the brink of television’s ‘third revolution’ — programs on demand,” says **John Hendricks**, Chairman and CEO of Discovery Communications. Services such as his company’s Your Choice TV will go beyond simple broadcast and cable (the last two TV revolutions) to give the viewer a tremendous variety of choice and, more importantly, close-to-complete control over viewing options.” Hendricks demonstrated how a simple hand-set will be a viewer’s ticket to a personal film festival of movies and TV shows available a la carte, at the viewer’s convenience. Individual viewers even will be able to stop a program if relatives drop by and resume watching, from the same point in the movie, once they leave. Discovery is currently testing this system in West Palm Beach, Florida.

Life in the Communication Fast Lane

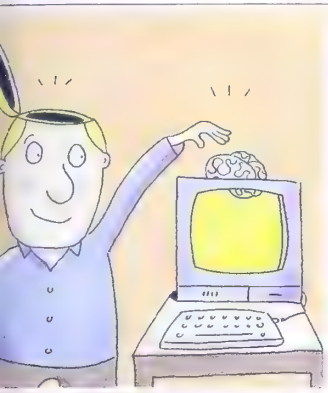
The development of the information highway is gaining speed. As the Business Week symposium ended, the Federal Communications Commission announced an auction of thousands of new licenses to provide wireless telephone and computer services. The FCC expects to generate \$10.2 billion in bids and spawn even faster development. The cellular telephone networks that seemed so revolutionary just a few years ago now will face fresh competition as new players enter the field.

“It’s long been said that knowledge is power,” observed Labor Secretary Robert Reich. “Since that’s more true than ever today, those who develop new and better ways to share information and images will find not just power but profits — and that’s as it should be.”

Developments to Watch

D BY RUTH COXETER

IT WILL IT REMEMBER WHERE THE CAR KEYS ARE?



up only one-half of 1% of the original space. That could be them a boon to banks, libraries, and laboratories flooded with data.

The key to Bugajsky's software for supercomputers, called *Memories*, is that it not only finds patterns in data but also patterns within the patterns, as human memory does. The layers of patterns are linked, so "recalling" something consists of working back down from the abstract to the specific. The final pattern can be reconstructed down to the last bit. Bugajsky's company, Triada Ltd., in Ann Arbor, Mich., is planning tests with, among others, NASA and the National Institutes of Health.

MORPHINE-LIKE DRUGS WITHOUT THE ADDICTION

For centuries, medicine has relied on opiates to dull pain. The problem: Many opiates are addictive and can even be fatal. Researchers, however, are beginning to unravel how painkillers react with brain-cell receptors. In the past few years, they have cloned three opioid receptors—which means millions of copies can now be made for lab experiments in cloning nonaddictive painkillers.

At the Society for Neuroscience's annual meeting in early September, scientists discussed how to create drugs that kill pain by binding to the kappa and delta receptors but steering clear of the troublesome mu receptor. That's the one that is morphine, codeine, and other potentially dangerous drugs. Creating such targeted drugs was difficult before now, but it has now made it possible to study the receptors separately. The field has attracted interest from venture capitalists. One prominent researcher, Terry D. Reisine of the University of Pennsylvania School of Medicine, predicts that there will be drugs to treat addictions within two to three years.

GETTING COLD CARS CLEAN UP THEIR ACT

Auto makers are racing to meet California's tough emission-reduction regulations—which other states may soon follow—for 1994 model cars. One good way to meet the mandate is to cut the release of hydrocarbons during the first two minutes after an engine starts. That's when most engine pollution occurs, because the catalytic converter is too cool to break pollutants into water and carbon dioxide. Engelhard Corp. in Iselin, N.J., has a new system that cor-

rects the pollutants until the converter warms up. The key is a metal oxide crystal that traps polluting hydrocarbons until the converter heats up to 200°C, then releases them. Hydrocarbons then flow back through the catalytic converter. Unlike other systems that are being considered to improve catalytic converters, this one is passive; no valves or batteries are needed to set it in motion. Engelhard says testing will be completed within 18 months. Eight U.S., European, and Japanese companies are working with Engelhard to test and modify the technology.

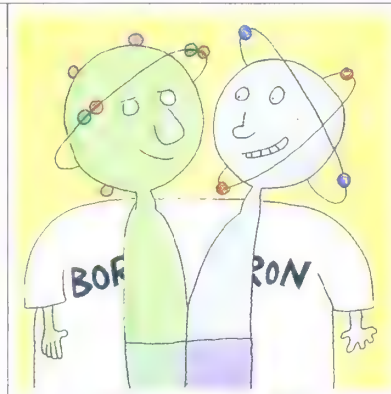
MODERN-DAY JOHNNY APPLESEEDS FROM CENTRAL ASIA

Bushels of perfect Red Delicious, Empire, and Mutsu apples come at a price: They're produced using chemical pesticides. This might be avoided if apples were naturally resistant to frost, disease, and pests, as they are in what's thought to be their birthplace—not the garden of Eden, but the ancient forests of the Tian Shan Mountains that separate China from the former Soviet Union.

This fall, Agricultural Research Service scientist Philip L. Forseline led American and Kazakh scientists through the wild apple orchards of two former Soviet republics—Kazakhstan and Kyrgyzstan—areas long off limits to Western scientists. Alma Ata, Kazakhstan's capital, is literally translated "Father of Apples." The wild apple trees harbor genes responsible for resistance that breeders can plug into the narrow genetic base of modern, cultivated apples. The need to preserve the wild species grows as new weekend homes wipe them out and domestic apples dilute them through cross-pollination. Traveling by helicopter and foot to remote areas, the researchers collected 18,000 seeds representing three native apples. Almond, pistachio, walnut, blackberry, and grape seeds were also collected. Back home, breeders are planting the seeds in hopes of finding other valuable traits.

NEW PIZZAZZ FOR HO-HUM POLYMERS

Since T.C. "Mike" Chung joined Pennsylvania State University in 1989 as a professor of polymer science, the former Exxon Corp. researcher has been working on ways to use boron to add muscle to ho-hum polymers such as polyethylene and its polyolefin relatives. Boron, he says, is the one element that can transform polyolefins



from the low-cost choice for bread bags and milk jugs to a material to rival such engineering plastics as polycarbonate.

Adding boron to the chemical stew that reacts to produce polymers, he explains, can yield polyolefins that cling to carbon- and glass-fiber reinforcements. Normally, polyolefins slip off such fibers like water off a duck's back. Other methods of making "sticky" polyolefins usually interfere with the production of the raw material or the processing of the polymer into finished products. Chung's research is funded partly by Exxon and Shell Oil Co., which presumably are among the unnamed companies investigating the technology's commercial potentials.

ASIA'S WEALTH

IT'S CREATING A MASSIVE SHIFT IN GLOBAL ECONOMIC POWER

To fathom the magnitude of the changes sweeping East Asia, drop by the antique-filled suite Nanoo G. Pamnani occupies on the 24th floor of a Singapore skyscraper. In the late 1960s, Pamnani began his career with Citibank in a region rocked by turmoil. War raged across Indochina. Destitute China was paralyzed by the mass terror of the Cultural Revolution. Malaysia and Indonesia were torn by ethnic bloodshed.

Twenty-five years later, the urbane, Pakistan-born art connoisseur directs Citi's booming Asian private-banking business, which won't handle accounts smaller than \$1 million. His list of clients illustrates just how many fortunes are being made: There are ethnic Chinese tycoons from Southeast Asia who control multibillion-dollar real estate empires, Hong Kong small factory owners who have made fortunes exporting, and even Taiwanese taxi drivers who hit it big in the stock market. In the past four years, the number of Pamnani's Asian clients has quadrupled, to 8,000. "The market of millionaires is growing incredibly fast," Pamnani marvels.

Wealth. To most Asians just one generation ago, it meant moving to the U.S.—or selling natural resources to Japan. But now, East Asia is generating its own wealth on a speed and scale that probably is without historical precedent. The number of non-Japanese Asian multimillionaires is expected to

double to 800,000 by 1996. Years of export surpluses, combined with high savings rates and prudent fiscal policies, have left East Asian governments with foreign reserves of \$250 billion, triple those of Japan. An additional \$600 billion in cash reserves is on the balance sheets of the region's corporations. And many of these companies are still growing exponentially. "In 10 years," says Hong-kong Bank corporate-lending executive Clinton Marshall, "you will be looking

at some truly gigantic companies

Under way is nothing less than a massive shift in the global economic balance of power, as the economies of East Asia catch up with Japan and the West. The emerging powerhouse combines Hong Kong, Taiwan, and China with the rising economies of Southeast Asia, whose business classes are dominated by ethnic Chinese. Throw in South Korea and gross domestic product totals \$2 trillion. East Asia will surpass Japan in chasing power within a decade. And with savings increasing \$550 billion annually, it is becoming the world's biggest source of liquid capital. "In Asia," says Olarn Chavavat, chief executive of Siam Commercial Bank, "money is everywhere."

SUDDEN IMPACT. East Asia's rise sends both opportunities and challenges to the West. There are new markets for everything from Mercedes-Benz to Motorola mobile phones to Fidelity mutual funds. But the days when Asia depended almost exclusively on Western capital are over. Business leaders who have finally figured out Japan's *retsu* now need to understand a distinctly Chinese model, where tycoons score megadeals in a flash and heads of state wheel and deal like CEOs. Western politicians must learn to respond to changes, too. President Bill Clinton taken an important such step with the summit of Asia-Pacific leaders that took place in Seattle on Nov. 20.

The political ramifications within



EAST ASIA'S BIG LEAP

The tycoons, the megadeals, and the ramifications for the West **100**

AN ELDER STATESMAN

A talk with Singapore's former Prime Minister, Lee Kuan Yew **108**

WALL STREET EAST

Asia's capital-markets revolution means new financial institutions **110**

OUTFLANKED IN ASIA

Japan's bankers may be missing out on the hottest markets **112**



THREE TIGERS
TAIPEI TRAFFIC,
SINGAPORE'S
MOTOROLA PLANT,
HONG KONG CHARITY
AUCTION: EAST ASIA
IS BECOMING A
HUGE SOURCE OF
LIQUID CAPITAL



are likely to be just as profound. Authoritarian rulers from Beijing to Jakarta believe that an increasingly wealthy population will gladly forgo personal liberties, but the new middle classes have already helped oust autocrats in Taiwan, Thailand, and South Korea. The tycoons' penchant for insider dealing in secretive networks also will be challenged as middle classes and modern capital markets demand greater transparency.

What makes East Asia's financial scene so remarkable is that the leap from rags to riches came so suddenly. To find the nearest precedent, you need to rewind U.S. history 100 years to the days before strong unions, securities watchdogs, and antitrust laws. The analogy isn't lost on Hong Kong's Gordon Y.S. Wu, the chief of property and infrastructure giant Hopewell Holdings Ltd. The Princeton University-educated Wu likens Asia's leading tycoons to the "robber barons" who built America's first railroad, banking, and steel empires.

The daunting challenge for Asians is to learn to manage this money. Many of Asia's streets aren't even paved with concrete yet, much less gold. The slums of Jakarta and Bangkok make some U.S. inner cities appear middle-class. For all of Asia's immediate riches, its future capital needs will be enormous.

Over the next decade, the region must mobilize more than \$1 trillion for highways, telephone lines, and power plants. Billions more are needed to build capital-intensive industries such as microelectronics, steel, and petrochemicals.

All of this is required if Asia is to complete the progression from cheap-labor sweatshops to advanced industrialized status. China's capital needs alone are so vast, says National Taiwan University economist Chi Schive, "that it could become a black hole" sucking in the region's wealth. So East Asia must create financial and capital markets that allow it to funnel its wealth into building a brighter future (page 110).

"SILENT REVOLUTION." Wall Street is now elbowing its way in on Asia's opportunities. U.S. insurance, pension, and mutual funds are eager for the rich returns offered by investing in Asian power plants, telephone systems, and property developments. Morgan Stanley, Goldman Sachs, and GE Capital, among others, are amassing direct-investment war chests and underwriting foreign bond offerings, stealing a march on their plodding Japanese rivals (page 112).

But foreigners are hardly critical to Asia's success. That's because Asians are fast accumulating enough wealth to finance most of its development needs

internally. While governments control some of this wealth, far more is in private hands. Most passes through a type of financial structure outsiders have yet to comprehend fully. The system revolves around ethnic Chinese power brokers, who depend on their dealmaking acumen and extensive personal ties to regional leaders (map, page 101). As a result, their business groups are "like giant LBO funds," says John S. Wadsworth Jr., managing director of Morgan Stanley Asia Ltd. While extraordinarily powerful, the network has no formal structure. "It has no head, no organization, no politics, no boundaries," says Peter Kwong-ching Woo, chairman of Hong Kong-based Wharf (Holdings) Ltd.

Billionaires are just part of the picture. Indeed, wealth is being created across a large base. At the lowest run, in what the World Bank calls a "silent revolution," the percentage of people living below the poverty line has decreased from 33% to 10%, even though the region's population has ballooned by 40% since 1970. Moreover, the ranks of the middle class are soaring. The number of non-Japanese Asian households earning \$18,000 annually is expected to increase fourfold to 75 million by the year 2000.

One danger is that much of this wealth will be frittered away on re-



ate boondoggles or lost to capital
ht. Governments with long histories
corruption also may mismanage their
es. While "red capitalists" in South
na cruise in Lexuses and impress
h other by smashing \$200 bottles of
nac at the banquet table, millions of
asants still live in poverty. Acute
blems persist even in the richest cap-
es, as the monstrous traffic snarls of
pei and Bangkok testify. And though
ional banks are among the world's
st solid, entrepreneurs have difficulty
ting loans.

Yet Asians are moving forward. To
nnel savings, economic planners are
dding securities ex-
anges, bond mar-
s, banking systems,
d pension systems.
e development of
ital markets will be
important as physi-
infrastructure,"
s Howard Pollack,
naging director of
man Brothers Asia
l's Hong Kong of-
e, which has pio-
ered the region's
agon bond" market
dollar-based corpo-
e bonds.

Making the great leap into high fi-
nance is now a top priority of Beijing's
reformers. China's banks, which have
some \$2.3 trillion in deposits, still have
loan policies dictated by the government,
which makes them redirect savings into
unprofitable state industries. With few le-
gal financial instruments to park cash
other than low-yielding savings deposits
and bonds, local governments and state
companies have stashed their loot in real
estate or siphoned it offshore into shad-
ow Hong Kong companies.

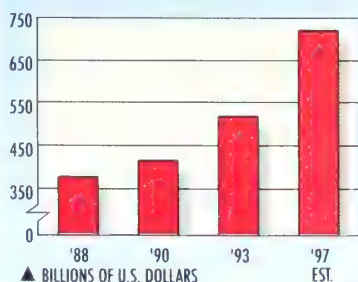
OBJECT LESSONS. Fearing economic prob-
lems that could spark social unrest, the
Communist Party in mid-November ap-

proved dramatic reforms. Last summer,
economic czar Zhu Rongji launched
measures to stop wasteful lending. Now,
the banking system is undergoing an
overhaul that will enable banks to lend
based on commercial rather than politi-
cal criteria. The fledgling stock exchang-
es, where market capitalization has
grown from nothing to \$32 billion in
two years, are getting a Western-style
regulatory system and hundreds of new
listings. China also is introducing a sec-
ondary bond market and mutual funds.
As it dumps central planning, Beijing
can pick ideas from the many successful
economic models in the region. From

Korea, it is learning how
to form giant heavy in-
dustrial combines. From
Hong Kong, it is learning
the art of the deal. But
for managing wealth, it is
looking at Singapore.

That's not a bad idea.
With its sleek subway,
dazzling telecommuni-
cations networks, and man-
icured boulevards, the
city-state of 2.3 million is
a technocrat's dream
world. It has foreign re-
serves of at least \$46 bil-
lion and many more bil-

ANNUAL SAVINGS ARE MULTIPLYING...



...AND STOCK MARKETS ARE EXPLODING



DATA: MORGAN STANLEY & CO., ASIAN DEVELOPMENT BANK, BUSINESS WEEK ESTIMATES

Special Report

lions in the balance sheets of state-controlled blue chips such as Singapore Airlines Ltd. and Singapore Telecom. The state finances lavish technology parks and even a \$330 million silicon-wafer fabrication joint venture with Texas Instruments Inc. And rather than China's "Iron Rice Bowl" of cradle-to-grave care for workers, Singapore has a \$31 billion compulsory savings program that helps Singaporeans buy their own homes and collect big benefits when they reach 55.

NO CHEWING GUM. Singapore is hardly a paradise. Its technocratic elite limits freedom of speech and intrudes heavily into the lives of citizens, banning everything from chewing gum to *Cosmopolitan* magazine. Still, the biggest dilemma for Singapore is how to invest its riches. The government can't release too much of its stash into Singapore's economy without causing massive inflation. So it is looking at its neighbors. Together with Indonesia's Salim Group, the government is pouring \$3 billion into industrial parks and tourism complexes in Indonesia. Singapore is also charging into China. Led by big government-linked companies such as Temasek Holdings and Keppel Corp., it has formed a \$200 million consortium to develop a 27-square-mile site in Suzhou, 50 miles from Shanghai, into an industrial zone. If Suzhou succeeds, says Finance Minister Richard Hu, "we could replicate it elsewhere in China and even Vietnam."

Malaysia, an ethnic hodge-podge of Muslims, Chinese, and Indians, is also proving what can be done through wise management of its wealth. To conquer its jungles and tie together a far-flung nation, Malaysia requires massive capital for power plants, expressways, and airports. But it has minimal foreign debt, a balanced budget, and is cutting taxes. The key: an aggressive but orderly privatization drive, some of the most modern bond and equity markets in the region, and a prudently managed \$22 billion fund that channels workers' savings into infrastructure.

Such success makes other Tigers envious. Taiwan, for example, is in danger of bungling the management of its considerable wealth. The country has seen its savings rate, which peaked at 40% of GDP in the mid-1980s, fall to 27%. The government has also fallen short of its ambitious goal of spending some \$200 billion on everything from subways to nuclear plants over the next decade. Central Bank Governor Samuel Shieh flares up at suggestions that he tap into

Taiwan's \$80 billion in foreign reserves, fearing the excess liquidity would fuel inflation. "We have enough savings to finance the entire plan," he snaps. "The question is how you get at it."

Taiwan's authoritarian legacy also hinders the management of its wealth. While the government has been a regional leader in allowing more democracy, it controls the biggest banks, which it uses to reward political allies. That means banks have no incentive to lend to a promising computer maker over a well-connected property developer. "If we privatized the government banks,

val erupts in China, Hong Kong's corporate sector probably won't suffer a major downturn. Its banks have some of the most solid capital ratios in the world, averaging 6% to 9%. And its developed airlines, and utilities have remarkably little debt, typically no more than 20% equity. "Almost to a fault, they have become debt-averse," says John M. Murphy, Hong Kong-based managing director of UBS Securities Ltd.

There is, of course, the fear that China will become a Waterloo for Asian dealmakers, deflating East Asian growth. Since Beijing opened China's property and retail sectors to foreigners last year, city after cash-starved city has been giving overseas Chinese the first crack. So tycoons from Hong Kong, Taiwan, and elsewhere are staking claims to factories, infrastructure projects, and commercial real estate.

HIGH STAKES. Chinese officials are so eager for cash that they offer sweeteners—such as tax holidays and easy bank loans. Over the years, Hong Kong-based investors have signed letters of intent for more than \$100 billion in mainland projects in the past three years.

But what makes this mad dash less dangerous than it might seem is that very few investors are committing more than 10% of their fortunes in China. Take Wharf Holdings' master plan for the sooty industrial city of Wuhan in central China. Wharf wants to develop a container-shipping terminal, to build 10 square miles of countryside into an industrial park, and live up the drab downtown with a new office tower. But Wharf's actual outlay has only been about \$20 million. It plans to build just 2 of the 36 berths that Wuhan wants. The rest, including the industrial

parks, will have to wait until there is proven demand. Wuhan officials want Wharf to move faster, but Wharf Chairman Peter Woo is determined not to get in over his head. "Our resources aren't unlimited," he says.

On the upside, pioneers such as Wharf could hit a bonanza if even a fraction of their plans pan out. There is an acute shortage of office and residential space in China's biggest cities, which are growing at a 20% annual rate and are attracting the world's biggest multinationals. Merrill Lynch, GE Capital and others are courting the big dealmakers to get a piece of the action.

When it comes to bringing in partners, however, the most lucrative stal-



**HONG KONG
LI KA-SHING'S
NETWORK OF
MAINLAND ALLIES
INCLUDES CITIC'S
LARRY YUNG (RIGHT)**

this problem would disappear," admits Chen Chi-Chu, senior vice-president of state-owned International Commercial Bank of China.

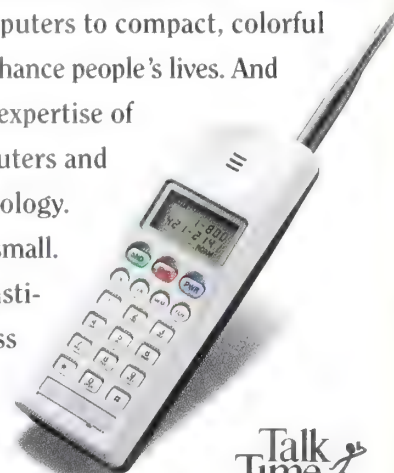
Hong Kong's wide-open financial markets are the extreme opposite of those in Singapore or Taiwan, and that has made it a thriving center of Chinese capitalism. Hong Kong is where red capitalists, property barons, and Chinese big wheels from Southeast Asia intermingle to form Asia's greatest concentration of wealth. The enclave of 6 million has 1,200 Rolls Royces and property prices fast approaching Tokyo levels. Counting government and corporate reserves, investment property, savings, and consumers' stock holdings, Citibank figures that \$1 trillion in investable capital is sitting in the tiny British colony.

Hong Kong may look dangerously like Japan's "bubble economy" of the late 1980s. But unless severe political upheav-

"Driving the ten-year-old second car didn't worry me—until my job moved down the road fifty miles. For his own peace of mind, my husband gave me an NEC portable phone. I didn't realize what a good idea it was until the fan belt broke in the middle of nowhere."



Portable phones are no longer luxuries. They are carried by people in every walk of life. Business people, housewives, students and retirees. Carpenters and utility workers. Anyone who's on the go and needs to stay in touch. And the brand more and more people count on is NEC. Because every product that NEC makes, from UltraLite™ laptop computers to compact, colorful pagers, is designed to enhance people's lives. And they are backed by the expertise of a world leader in computers and communications technology. In businesses large and small. In public and private institutions. In homes across the country. NEC is a part of people's lives.



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Special Report

will stay within the ethnic Chinese network. Tycoons such as Salim Group's Liem Sioe Liong, Kerry's Robert Kuok, and Henderson Land's Lee Shau-kee have long been moving funds around the region. And they prefer to dive in and out of properties and corporate takeover targets.

A \$7 BILLION PLAYER. Nobody plays the game much better than Li Ka-shing, who is estimated by bankers to be worth up to \$7 billion. Five years ago, his main vehicles, the \$2.7 billion Hutchison Whampoa Ltd. and property giant Cheung Kong Holdings Ltd., were diversifying in the West. After losing big on British telecoms and Canada's Husky Oil Ltd., Li expanded his network to in-

ing information and capital quickly.

To get into the loop, insiders spend years cultivating politicians and building trust. When they learn of an opportunity, they give friends first crack. Financing for a \$100 million property deal can be arranged in days, with personal trust taking precedence over due diligence. One needn't be Chinese to be a player. "But to be a part of it," says Wharf's Woo, "you have to bring something to the table and understand how deals are done here."

The ultimate manifestation of this Chinese network is New China Hongkong Group, founded earlier this year with \$65 million in capital. Its partners are the biggest names in China investments,

Yet most analysts think that's unlikely. For one thing, Chinese tycoons may up when particular deals are in their interests. But unlike the Japanese, they are generally too headstrong and individualistic for serious collective effort. Some observers argue that in a decade or two, mainland officials won't be the overseas Chinese middlemen. "The [mainland] Chinese are going to say 'Why did we give away half our city to them?'" says Francis Yeoh Sock Pin, chairman of Malaysian construction company YTL Corp.

RAW POWER. Indeed, that is a question much of Asia may ask once the glimmer of sudden riches fades into the sober realities of building advanced indus-

trial societies. To the future middle-class residents of Guangzhou and Shanghai, the tycoons who built fabulous fortunes through political favors and inside dealing will look more and more like robber barons from another era. Men like Li Ka-shing are not the patient capitalists who made the heavy investments in R&D that produced Sony, Motorola, or Siemens. The secretive old-boy network won't propel Asia onto the next economic level.

The great hope is that the younger generation, cosmopolitan, Western-trained executives who come to the fore to build world-class manufacturing conglomerates. In keeping



clude powerful allies in the mainland, teaming up with Beijing-controlled Citic Pacific, Guangzhou International Trust & Investment Corp., state-run steelmaker Shougang Corp., and even Deng Zhifang, the son of China's senior leader Deng Xiaoping. Recently, Li has helped Shougang take over Hong Kong's Tung Wing Steel, Santai Manufacturing, and Kader International.

The concentration of so much financial firepower in so few hands may seem threatening, especially given the tycoons' reliance on secrecy and back-channel dealings. "But the networks also serve an important function," says University of Hong Kong management professor S. Gordon Redding, a leading authority on the overseas Chinese. In a region where capital markets are primitive, financial disclosure is thin, and the rule of law is often weak, interpersonal networks are critical for mov-

SHANGHAI CHILDREN PLAYING MONOPOLY: THE NEXT GENERATION MUST LEARN SOPHISTICATED FINANCIAL TECHNIQUES

including, among others, Li Riady, the Singapore government, Taiwan International Securities, and 20 mainland companies and ministries.

Lining up the investors was easy, says founder T.T.

Tsui, who sports a diamond-studded gold watch as he relaxes amid the rare Chinese porcelains and 8th-century terracotta figurines lining his office. "Nobody minds having a little more *guanxi*"—connections, that is. Tsui's *guanxi* already has brought a flurry of deals, including a military jeep factory, an \$800 million highway project, and a joint venture with the city of Beijing to refurbish and market 20 pre-Communist estates.

While New China Hongkong does include token foreigners such as Goldman Sachs, such organizations suggest to some outsiders that the loosely knit Chinese business bloc will start to take institutional form and lock out foreigners.

with Asia's postwar economic model, governments will be involved in kick-starting strategic industries that could grow into East Asia's General Motors Corp. or Intel Corp. But governments alone won't be enough. Asia needs maverick visionaries—and financial institutions that think long term—to make the region globally competitive. It may not be easy. Witness Taiwan's humiliating failure in the past two years to get the corporate elite to make the island a world player in aerospace by agreeing to mergers with McDonnell Douglas Corp. or British Aerospace PLC.

Thus the most critical question facing the region is how it manages its raw financial power. Sticking to some of the models that got them this far, technocrats will continue to deploy their vaults of reserves into R&D consortiums, seed capital for industries, and even strategic alliances with Western high-tech giants. They will continue with prudent financial management

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techniques. But they will also have to make sure that their financial systems mature sufficiently to allow Asia's wealth to move out beyond a narrow network of Chinese tycoons and their friends in government. Success is by no means assured for all Asians. A corrupt oligarchy reduced the Philippines from one of the region's richest nations 30 years ago to one of the poorest today. Now China, in particular, is at a crossroads. Many Communist Party officials prefer to enrich themselves in

secret by dealing with the overseas Chinese networks. Beijing's reformers, on the other hand, want the wealth to be in the hands of modern capital markets.

Asia's winners will be those countries that harness the billions generated by shopkeepers, small manufacturers, and white-collar workers, making them the driving force of development. That will require more efficient and transparent capital markets that funnel wealth to projects and ideas that build a fu-

ture. The Asians who master the challenge of managing their wealth will "have embarked on a permanent path for development," says Kwok Kwai Chuen, chief economist at Standard Chartered Bank in Hong Kong. "As development tends to feed on itself, that will change the face of Asia and the world."

By Pete Engardio in Hong Kong, and Joyce Barnathan in Beijing and William Glasgall in Bangkok

Special Report continues on page 1

AN ELDER STATESMAN SURVEYS ASIA'S FUTURE



Lee Kuan Yew is no longer Prime Minister of Singapore, but he remains one of the region's elder statesmen and visionaries. He met with Hong Kong correspondent Pete Engardio to talk about Asia's wealth.

Q. *Is Singapore a model for China?*

A. We can't be a model for China because we are a city-state and they are a large agricultural economy. But the way we manage our growth with a certain social discipline and low incidence of crime appeals to them. They want to achieve what we have accomplished here, like a very high home-ownership society and substantial savings. They see our compulsory-savings mechanism as a valuable tool for getting capital to develop their infrastructure.

Q. *Will state intervention continue in Asian economies?*

A. I don't think it is likely that governments that have been able to accelerate their economies will abstain from intervention. We do not intervene to act contrary to free-market forces. All we have done is concentrate certain resources in a certain direction the market is already moving toward.

Q. *Do you believe in the Chinese Century?*

A. I believe in the next 50 years we will see the emergence of a thriving China. That doesn't mean it will be the Chinese Century. I think Japan's per capita income will still be bigger than China's. And China is not the



same as the Chinese diaspora or the overseas Chinese. There is the momentary glow of fraternity. It is at this stage, when China has not established clarity and transparency of law, that the Chinese diaspora can play a critical role. They have proved that if you develop *guanxi* [connections], you can make up for the lack of rule of law. But I don't think there will be a supranational kinship that will hold the economic loyalties of these overseas groups to China. In 20 or 30 years, when China has its economy off the ground and laws and systems in place, then the multinationals of Japan and the West will be there in force.

Q. *Does China prefer American to*

LEE KUAN YEW
"YOU ARE TREATING CHINA AS IF IT WERE AN AID-DEPENDENT THIRD WORLD COUNTRY"

Japanese multinational companies

A. If that is what they are telling you, then the Chinese are having the same experience as we have: There is much more transfer of skills, management, and technology with American multinationals than with the Japanese. There is only one Singaporean who is managing director at a Japanese multinational here. But look at American multinationals, and there are any number of them. I think [the Japanese] will play a role. But I doubt it will be a dominant role.

Q. *What do you think of Washington's China policy?*

A. Let's put it this way. You are treating the Russians with kid gloves. But you are treating China as if it were an aid-dependent Third World country. Is that sensible?

In American politics, it is only in a crisis like Somalia that there is a concentration of minds. Otherwise, the process just goes meandering along, sidetracked and whipped along at tremendous pace by the media. I'm not sure the Chinese understand the sometimes haphazard way of making decisions.

Q. *How about its Asia policy?*

A. I am greatly encouraged that President Clinton proposed a summit in Seattle. It's a plus for America and the Asia-Pacific countries.

Q. *Could an Asian trade bloc exclude the U.S.?*

A. It does not make sense to cut off America when it is the largest market for each East Asian country. That would slow down our growth.

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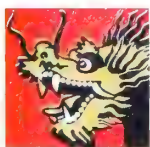


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A MILLIONAIRE A MINUTE

Investors are raking it in as Asia builds a Wall Street East



It's a few minutes before noon on a balmy fall day in Bangkok's financial district, and the lunch-hour stock-players are drifting into the bustling main branch of Dhana Siam Finance & Securities Co. As Surin Sakolchai listens to the staccato beat of an announcer reading out stock prices to the 100 or so men and women milling about the room, he breaks into a broad grin. A lawyer turned investor who stops by at least three times a week to trade his \$200,000 portfolio, Surin, 50, has ample reason to be happy. "I've been in the stock market since 1987, and I've made 60% a year," he says. "That's a good return."

Surin is hardly the only investor raking it in as Asia's emerging stock markets leapfrog from one record high to another. In the gritty "millionaire's club" lounge in the basement of Shanghai Shenyin Securities Co.'s pink-tiled headquarters, factory workers and cab drivers jostle for a chance to get in on takeover rumors. It's much the same in Hong Kong, where the clamor for new issues from mainland China seems at times to drown out concerns about Beijing's 1997 takeover of the colony.

SAVING BUNDLES. But more than speculation is setting Asia's bourses on fire. There's a fundamental financial change: A capital-market revolution is sweeping through Asia. It's a change born of necessity. Asia boasts solid economic growth and some of the world's highest savings rates—40% of gross national product in China alone. But it hasn't



been easy to channel those savings through the region's cumbersome financial systems. So technocrats in country after country are modernizing stock markets, creating bond and futures markets, launching insurance industries, and pushing sleepy banking giants into global competition.

Borrowing from the U.S., Europe, Japan, and Korea, they have one major goal: to develop institutions and bourses that can harness Asia's—and the world's—cash to make the huge investments that lie just ahead. "Mobilizing savings is a significant challenge for countries across Asia," says Richard W. Mounce, general manager for Chase Manhattan Bank in Hong Kong. "Their appetite for capital is voracious."

Asia's capital markets won't completely resemble their sleek Western counterparts overnight. Technocrats promoting modern financial techniques will have to confront ancient traditions of old-boy networks, secret dealings, and in some cases, corruption. And as they have in past decades, governments will continue to use markets to help guide capital toward high-priority industries.

HEFTY PUNCH. These issues may become less important as years pass, however. Just as America discovered more than a century ago, a relatively primitive financial superstructure can still deliver a hefty punch in an economy that is the way up. For some investors in Asia, that's already becoming apparent. American International Group Inc. (AIG),

EAST ASIA'S EMERGING CAPITAL MARKETS

1993 STOCK MARKET PERFORMANCE THROUGH NOV. 15

DATA: BUSINESS WEEK, BRIDGE INFORMATION SYSTEMS INC.

CHINA

Despite a crackdown on speculation, the flood of new stock issues continues. Banking reforms will allow lenders to focus on business and consumer credit. By 1994 or 1995, Beijing is expected to allow foreign banks to issue credit cards and compete for local loans and deposits.

14%

HONG KONG

Ignoring concerns over China's 1997 takeover, foreign investors are pouring billions into local blue chips likely to thrive on mainland growth. Also becoming center for emerging "dragon bond" market, allowing Asian borrowers to raise funds from investors throughout the region.

77%

INDONESIA

Jakarta stocks staging a torrid comeback as regressive three-year-long moratorium squeeze. After establishing market regulator modeled after U.S. Securities & Exchange Commission, government to widen shareholding by foreigners. But banking system remains mired in bad debt.

insurance giant that has been active in the region for more than 70 years, has gained 50% a year since 1989 on its \$200 million worth of investments in midsize manufacturing, utilities, and other companies. So now, AIG is in the process of assembling a \$500 million fund to invest in infrastructure projects. "We see tremendous opportunities," says Cecil C. Zalamea, president of AIG Investment Corp. (Asia). In fact, Asia's drive to harness its

The region certainly offers enough business to support more than one Merrill. Take Shanghai. With trading volume approaching \$700 million a day on the port city's three-year-old stock market, everything from smoke-belching chemical complexes to taxi fleets is going public. "We want to turn Shanghai into a national and international financial center," says Shanghai Shenyin General Manager Kan Zhidong as he lights up a filter-tip Hongtashan cigarette.

Kan is getting plenty of help from Beijing, where Zhu Rongji, the vice-premier and People's Bank of China governor—and former Shanghai mayor—is pushing through a wide array of financial and fiscal reforms. So popular is Zhu with the management of newly listed companies that one of his aphorisms—"strict management is essential"—decorates the marble lobby of one of his hometown's hottest public companies, Shanghai Dazhong Taxi Co. It raised \$22.4 million in September on the stock market. The funds helped Dazhong buy 700 locally made red Volkswagens, and go into rentals in a joint venture with Hertz Corp.

Given the remarkable ability of a company as mundane as a taxi fleet to raise capital by selling stock, it's no surprise that Chairman Yang Guoping encourages his work force to invest in equities. "I have 800 shares, and the majority of our drivers purchase shares, too," says Yang, who occasionally climbs behind the wheel himself. So far, the boss and his drivers have profited handsomely. Like most Chinese public companies, Dazhong has issued "A" shares, which are only for Chinese investors, and "B" shares, intended largely for foreigners. Since 1992, the A shares have tripled in price, while the B shares, whose market is more limited, have climbed 50%.

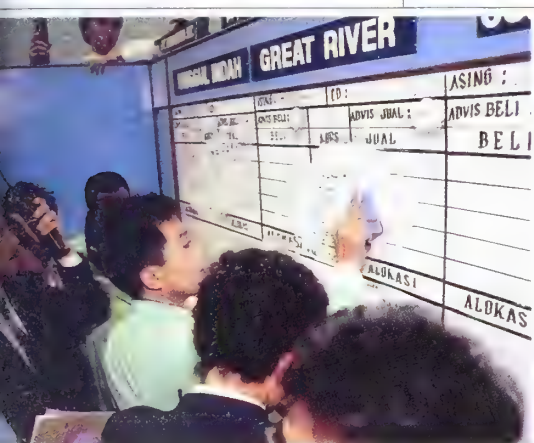
Chinese officials want to see companies across the country list shares to help spread the new financial wealth far from the markets of Shanghai and Shenzhen. "We're still smaller than the New York Stock Exchange," says Wang Boming, executive vice-president of the Stock Exchange Executive Council. "But we're getting there."

POINT-BLANK REFUSAL. To be sure, Chinese and other Asian bourses still have a long way to go before they meet those Western standards of regulation and disclosure. Cozy dealings characterize most of the region's markets. The \$295 million sale of stock in Jakarta last summer by Indonesia's PT Barito Pacific Timber, for example, was dogged by the plywood manufacturer's refusal to discuss its extensive business ties with the family of President Suharto.

Asian regulators are aware that their markets may never fully adopt U.S.-style disclosure rules. But even if the markets never go that far, sheer profit opportunities are certain to keep drawing in money. With Asian interest rates falling, dozens of corporations and governments are energizing local bond markets as they flock to sell debt. Potentially even more significant is the blossoming of the "dragon bond" market across Asia. A Hong Kong offshoot of the London-based Eurobond market, the dragon market is fast becoming the pre-eminent way to link Asian investors with local and multinational issuers wanting to tap the region's deep pockets. Says Michael C. Kwee, president of Prudential Asset Management Asia Ltd.: "Investors are saying, 'I want Asia.'"

Such calls are likely to grow even more frequent in coming years. Putting financial markets to work is becoming job No. 1 for Asia. Doing so will require melding its old-boy capitalism and Wall Street knowhow into a new network of markets with a style and substance all their own. With trillions of dollars of Asian savings at stake, the payoff could be staggering.

By William Glasgall in Shanghai, with Pete Engardio in Kuala Lumpur and Joyce Barnathan in Beijing



SHANGHAI
STOCK EXCHANGE IS BUSTLING
ALREADY, SOME 10 MILLION
OWN STOCK

JAKARTA
INDONESIA HAS PRIVATIZED
THE STOCK MARKET AND
DEREGULATED BANKING

mounting wealth is already creating a jumble of new funds, securities, instruments, techniques, and—perhaps most notably—institutions to invest Asia's cash. The footprints of Wall Street's Salomon Brothers Inc. and Tokyo's Nomura Securities Co. can be found across Asia. Hong Kong's Peregrine Investments, Bangkok's Finance One, and other ingenious newcomers to Asia's financial industry are showing the world that Asia is certainly able to manage its own money, too. Peregrine's \$1 billion in capital, for example, approaches the sum that Wall Street giant CS First Boston has amassed. "They have ambition," says Merrill Lynch Executive Vice-President Christopher H. Smith Jr. "They talk about the Merrill Lynch of Asia."

ASIA 49%
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costs, and privatization are
fueling growth. Kuala Lumpur stock
market is booming. After unload-
ing monopolies, government
sells shares in oil and
gas companies. Corporate
market is growing;
initial round already sold.

SINGAPORE 37%
Local investors,
allowed to use state pension-
fund balances to buy stocks for
first time, get \$2.7 billion
privatization of Singapore
Telecom off to rousing start and
give equity market shot in the
arm. Government hopes to sell
electricity, subway, and
chemical interests.

TAIWAN 28%
Equities awaken
from long swoon as government
begins opening Taipei stock
market to greater foreign invest-
ment. State plans \$1.1 billion
sale of stock in China Steel
Corp. and will list its shares in
New York. Government also
making it easier for companies
to raise cash overseas.

THAILAND 53%
Interest rates and the
upcoming sale of shares in
Telcom Asia, with contract to
add 2 million phone lines in
Thailand, are spicing up
Bangkok stock market. Middle-
class investors are piling into
U.S.-style mutual funds. Surging
corporate-bond sales are
creating a hot debt market.

OUTFLANKED IN ASIA?

Japan's financiers are lagging in the hottest markets



As head of Sakura Bank Ltd.'s Asia division, Masao Umemura should be a happy man. After all, the bank's lending in the region is expected to rise

by more than 10% this year. But Umemura is frustrated. While Asian capital markets are going into orbit, Sakura—like nearly all Japanese financial institutions—still is on the launching pad when it comes to underwriting the new flurry of Asian stocks and bonds. "Oh, yes, we're anxious," says Umemura. "We want to be a major player—and soon. We're thinking very hard about how to do it."

A funny thing is happening on the way to Asia's financial revolution: The Japanese are bringing up the rear. Although strong in traditional businesses, Japan's innate conservatism combined with a slowdown at home are holding its financial groups back from the hottest action in Asia's go-go markets. Schooled mainly in Japan's overregulated system, many Japanese are simply outflanked by savvy U.S. and European rivals. Others are wary of the durability of Asia's boom and see the overly aggressive Americans as "financial cowboys."

But Japan's reticence in the region suggests that, despite fears in Asia and the West, there's no "yen bloc" in the making. In fact, it is the Westerners who are helping draft the rules of the region's capital markets—and who are doubling and tripling their staffs and committing hundreds of millions of dollars to innovative financing techniques. With Japan preoccupied with refloating a badly shaken financial system, the concept of a yen bloc "is dead," says Hamish McLeod, Hong Kong's Financial Secretary. "The dollar is the international currency."

DOGGED YANKS. Japanese weaknesses show through even in areas of strength. They are still major lenders to big infrastructure projects, and that brings in margins of 2% or more, compared with 1% on commercial lending and fees. But Japanese bankers don't stray far from the track mapped by their big clients: Some 80% of project-financing deals involve a Japanese construction company or supplier in a key role.

Americans, by contrast, are beating down the doors of potential customers.

The managing director of a major Hong Kong developer says executives from Goldman Sachs, Morgan Stanley, and Salomon Brothers are swamping him with fund-raising proposals. "So they get the deals and then hive off small positions to the Japanese," he says. "But the Japanese don't get the fees. They are pretty slow off the mark."

The Japanese are clearly uncomfortable with the complex deals currently

like Lehman and Goldman to invest money," says Rikio Takezawa, managing director of Sanwa International Finance Ltd. in Hong Kong. "We have had several years of terrible experience in the securities market." Japanese investors are licking the wounds inflicted by the stock market crash since 1990.

RELATIONSHIPS. Of course, the Japanese can never be counted out. For one thing, Japanese manufacturers still are expanding in Asia, as cheaper labor beckons. But the strong yen forces them to move production abroad, as Toyota Motor Corp. plans to do in Thailand. That alone will be good business, what with parts makers hot on the trail of their affiliates' Asian factories and all needing capital as they grow. And as the largest aid provider in the region, Japan has tremendous contacts with governments across the region. Still, Will Clark, head of Citibank's Global



sweeping Asia. Take the \$392 million bond issue for Malaysia's north-to-south expressway, which was led by London-based Morgan Grenfell Group PLC. To fund the project, one of the biggest of its kind in the world at the moment, Morgan Grenfell sold the issue to local Malaysian investors by attaching an equity sweetener. The Japanese aren't even trying to do such deals. "In local markets, [the Japanese] are very unsophisticated," says Stephen N. Edwards, manager of Morgan Grenfell (Asia) Ltd.'s Singapore office. "They aren't even competing for advisory services."

It isn't just American salesmanship that has the U.S. leading the charge into Asia. American financiers can tap the billions of dollars of U.S. institutional money that's looking for good returns. "It's a big opportunity for U.S. companies

**HONG KONG
JAPANESE BANKERS
IN HONG KONG
HARBOR: RACING TO
CATCH UP WITH
WESTERN FINANCIERS**

set Management in Sydney. "The Japanese want to make sure they can at least control their own trading bloc."

Will Japanese banks be roaring back in a few years when Japan's burst bubble is a dimmer memory and

backload of bad debts is gone? Maybe. They could learn from the mistakes of Western financiers and take advantage of their own steady relationship-building. But if the bet on Asia pays off, the Japanese could find themselves permanently outsiders in the business of managing the region's wealth explosion.

By Larry Holyoke in Jakarta, with Linda Lindorff in Hong Kong, and Pete Englund in Singapore

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FROM POVERTY WARRIOR TO CRIME FIGHTER

Peter Edelman is helping to mount Clinton's attack on violence

As a young aide to Senator Robert F. Kennedy in the 1960s, Peter B. Edelman transformed the shame of America's hidden poor into searing images that captured the nation's attention. Hearings he organized showed that amid the country's plenty, there were black children in Mississippi with bloated bellies, whites barely surviving in Appalachia, and desperate inhabitants of inner-city ghettos. Partly as a result, the Johnson Administration launched its sweeping War on Poverty.

Now back in government as counselor to Health & Human Services Secretary Donna E. Shalala, Edelman is preparing to battle another massive social ill: crime. As co-chair of the White House Interagency Group on Violence, the 55-year-old is a chief architect of a new—and little-publicized—phase in the Clinton Administration's antierime agenda targeting the roots of violence. That's a sharp contrast to the get-tough, White House-backed crime legislation working its way through Congress. "We can't build enough prisons in the world to incarcerate criminals if we do nothing to prevent violence in the first place," Edelman says.

But the 1990s are far different from the 1960s. The group's recommendations—due at the White House by year-end—may echo the Great Society in showcasing "model cities" as examples of grass-roots efforts to fight crime. This time around, however, Edelman and other Washington liberals don't have billions to lavish on pro-

jects—and are far from sure that throwing big bucks at poverty is the answer. Instead, they're expected to help families and communities tailor their own solutions. The group also will help communities tap federal funds by cutting red tape. "In the '60s, there was more of a belief that the federal government could discover a major cure if we could just enact more federal programs," Edelman says. "Now we understand it's more three-dimensional."

The task force's approach marks a new direction for Edelman, a longtime

liberal crusader. The husband of Clinton's Defense Fund founder and Hill Rodham Clinton chum Marian Wright Edelman, he served as director of New York State Division of Youth as University of Massachusetts vice-president in the 1970s. He launched a poverty clinic while teaching at Georgetown University Law School in the 1980s, was on the boards of numerous liberal advocacy groups, such as the Center for Community Change and Common Cause.

Edelman's group is certain to spark controversy despite its restrained tone. Moderate New Democrats worry that Edelman's true liberal colors will prevail—opening the Administration up to attacks that it's soft on crime. "If you look at who's in charge, it makes me nervous," says one. Traditional liberals fear the virtually penniless task force will be little more than window-dressing. Republicans, meantime, hope the administration's liberal elements will cast it to self-destruct. "I don't want to encourage them, so that the public can express their reaction in 1996," says Edelman.

J. McNulty, executive director of a conservative antierime coalition.

TOP PRIORITY. For now, the task force has been working from the Oval Office. Clinton is expected to include proposals from Edelman's group in the State of the Union address. In a speech to African American ministers in Memphis on Nov. 13, Clinton veered away from his call for more cops and gun control. Instead, he urged the government, businesses, and families to combat violence from the ground up. "We will give these children a future," Clinton said. "We will do it together by the grace of God."

The idea for the task force surfaced when Attorney General Janet Reno, an outspoken children's crusader, teamed with other Cabinet chiefs this summer about America's youth. Soon after, Edelman and his co-chairs, Deputy Attorney General Philip Heymann and Deputy Education Secretary Madeline M. Kunin, formed a seven-age-



HACKING AT THE ROOTS OF CRIME

Besides punishing wrongdoers, the White House Interagency Group on Violence wants to attack the social problems that breed crime. Here's how:

SAFE SCHOOLS The Education Dept. aims to make schools a refuge from violence by funding after-school and training programs. A proposed law would provide violence counseling and metal detectors for schools.

JOB TRAINING The Labor Dept. seeks to give disadvantaged youths a foothold in the job market through such programs as Job Corps, which provides job and academic training. Youth Fair Chance offers sports, teen-parenting classes, and other activities.

SECURE COMMUNITIES The Housing & Urban Development Dept. supports the development of safe neighborhoods through enterprise zones that give businesses incentives to locate in low-income areas.

oup. It is made up of their departments and Labor, Agriculture, Housing Urban Development, and the Office of National Drug Control Policy. Their goal: come up with solutions to the violence pervading American life, from domestic relations and public housing to schools. "You can't deal with anything else without dealing with violence first," says Heymann.

Although the group is unlikely to get lots of new money, it will encourage communities to tap into new Administration initiatives, such as health care, while piggybacking on such existing federal programs as enterprise zones (tax breaks). Part of the strategy is to encourage local partnerships that can be replicated nationwide. Cities chosen to serve as models include Denver, Omaha, Washington, and possibly Atlanta.

IF HELP. The Omaha Housing Authority's program is one prototype. For the past seven years, the OHA has offered a one-stop shopping for the 15,000 residents in its public and subsidized housing. It works with almost every agency in the city to help prepare the poor for the work force and to find jobs. A private foundation provides vans to transport people from home to work. And the school system provides study centers in housing developments, where volunteers tutor children. These efforts are paying off: Damage from vandalism at housing projects costs less than \$5,000 a year now, compared with \$89,000 in 1986. That same year, the average stay at these housing projects was more than eight years, compared with a little more than three years now.

Another example is Colorado's Family Centers, started under Democratic Governor Roy R. Romer a year ago. Combining seven centers around the state, it offers social services ranging from children's health care to drug-abuse counseling. Since the Fremont County Family Center in Canon City opened its doors in February, it's helped 25 out of 30 families resolve their domestic violence problems, the center says. Claudia Mandel, director of the Family Center Initiative of Colorado's Social Services Dept., adds: "The whole flavor of this is help us to help ourselves."

While few can disagree with such a self-help philosophy, highlighting the causes of crime will be tricky for the Clinton Administration. That's because hard-liners on crime seem to be winning the polls against social do-gooders. If the White House tries to appease both sides, it will keep trying to distance itself from past liberal remedies. Ultimately, it's up to Edelman, the seasoned poverty warrior, to make sure the Administration proposes solutions for the poor without slipping back in time.

By Catherine Yang in Washington



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REITs: BOOM TODAY, GLOOM TOMORROW?

Sure, they're hot. Trouble is, their underlying assets aren't

Calling it a gold rush is an exaggeration. But not much of one. Although commercial real estate has been bouncing along the bottom of its worst slump in decades, yield-hungry investors haven't been able to get enough of real estate investment trusts, which are basically packages of actively managed commercial real estate. Some \$7.2 billion in REIT initial public offerings has been gobbled up in 1993 through Nov. 12, vs. a mere \$919 million for all of 1992. An additional \$6 billion in REIT IPOs is currently in the pipeline. The market capitalization of equity REITs has jumped from \$5.6 billion to \$23 billion in just three years.

The euphoria rampant in the REIT industry for much of 1993 was reflected in a recent conference held by the National Association of Real Estate Investment Trusts in New Orleans. The lavish entertainment—a masked Mardi Gras gala

featuring a parade by a local marching band—and rhetoric (one panel discussion: "U.S. Real Estate Markets: An Opportunity of a Lifetime") evoked nothing so much as the 1980s' Predators' Balls, where junk bonds were king.

If you think this party sounds too good to last, you may be right. The major problem: While REITs promise high and ever-increasing dividend growth, the real estate they own, such as shopping centers and apartment houses, even office buildings, probably won't rebound as fast as their growth stories may imply. "In the long run, REITs can only be as prosperous as the properties they

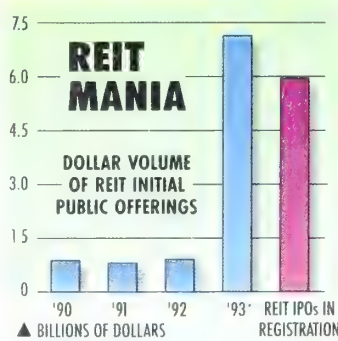
contain," said Anthony Down, a Brookings Institution senior fellow who was a voice of caution at the REIT conference. "Their dividends can only grow when the conditions in underlying property markets become prosperous. And that's going to take a while."

STRONG DYNAMICS. There are already serious signs of weakness, with the REIT market down close to 12% in the past three weeks. While supply soars, demand is easing as hot money moves away from REITs. Earlier in the year, numerous issues brought to market immediately jumped up in price. But recent REIT IPOs not only haven't had the hoped-for big bump-up in price but have fallen below their IPO price. Case in point: Associated Estates Realty Corp., which debuted at 21% on Nov. 11 and closed at 20% on Nov. 17. There's Avalon Properties Inc., which was priced at 20% on Nov. 11 and has since slipped to 20%. A somewhat earlier IPO

Mark Centers Trust, traded above its issue price of 18% at first, but had fallen to 15% as of Nov. 17.

As more private developers rush to go public, investors are becoming increasingly discriminating in their purchase of REITs. The market got a chance to give REITs a warning about living up to their projections when Mark Centers Trust announced on Oct. 26 that it wouldn't meet its expected numbers for its first quarter as a public company. The stock dropped 5.6% that day. By Nov. 17, it was trading more than 16% below its offering price. "We need to do deals that are straight, to sell in come in place, to sell reality," said Chicago investor and REIT executive Samuel Zell at the REIT conference. "We don't need to, nor should we, sell futures. If we sell futures, we will end up fouling

our own nest." As in the junk market, the dynamics fueling REITs are powerful. Investors are eager for the 4%-to-8% annual yields typically forecast by prospectuses. Developers, many of whom are facing severe financial problems, see REITs as an almost heaven-sent way to cash out—and in some cases, "mi-



DATA: NATIONAL ASSN. OF REAL ESTATE INVESTMENT TRUSTS, REALTY STOCK REVIEW

dog (properties) with their jewels" the process, as Downs puts it. Investment bankers have been raking in various fees by putting these two pups together.

Institutional and retail mutual funds have been among the biggest REIT buyers. According to Morningstar Inc., net assets in the seven real estate funds it tracks swelled almost 200%, from \$259 million at the end of 1992 to \$764 million in September. "These people are so eager to buy yield, they're creating excessive demand, which is leading to a supertight market to meet that demand," says Downs.

These dynamics are being undermined by the likely slow growth of REITs' underlying properties. Take apartment buildings, a popular REIT holding. Fewer renters are entering the work force, which means fewer new households are being formed. With mortgage rates at historic lows, more apartment tenants can afford single-family homes. And despite the low level of multifamily housing starts may lead to eventual rent increases, rent hikes are now the exception, notes David Kostin, Salomon Smith Barney Inc. REIT analyst.

A more immediate threat is the possibility of higher interest rates. "If interest rates rise sharply," says Downs, "this flood of mutual-fund money could dry up," leading to a substantial drop in REIT prices. "Mutual-fund managers are traders with a short-term horizon of 30 minutes, while real estate is a long-term horizon situation." When the Goldman Sachs Inc. REIT announced its cash flow would be slightly short for the next three years, the stock dipped as much as 13% in a single day, which Downs blames on selling by mutual funds.

THIRD INNING. While predicting rough times ahead, many REIT-watchers say the recent shakeout is healthy and that they expect the overall market to grow automatically. David G. Shulman, head of real estate research for Salomon Smith Barney, expects the industry to top \$1 billion in market capitalization in the next six years. Zell says it could reach \$150 billion in three years. But while agreeing with a mutual-fund manager's characterization of the REIT industry as being in the "third inning of a seven-inning baseball game," Shulman recently cautioned that the current REIT boom will be subject to a "two-hour rain storm. Make no mistake about it."

Sam Zell tells a story about a bumper sticker he saw in Houston in 1984 that reflects the sense of caution that is gradually permeating even the more euphoric segments of the REIT industry. The bumper sticker read: "Please, God, give me another oil boom and we promise not to screw it up."

By Suzanne Woolley in New York

BANKING

ICY GUSTS BATTER THE WINDY CITY'S BIG BANKS

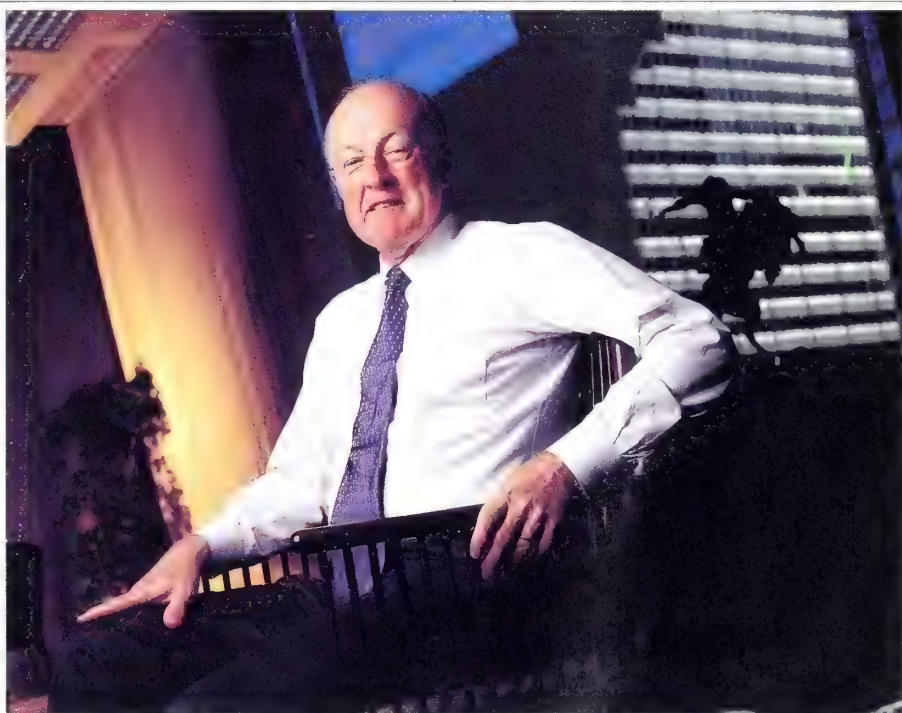
First Chicago and Continental fight back as rivals invade their turf

Rising from the table in First Chicago Corp.'s executive dining room, Richard L. Thomas walks over to one of his favorite paintings, a depiction of the great Chicago fire of 1871. Amid the smoke and rubble, only one building is left standing, and it bears the inscription of the First National Bank of Chicago.

As Thomas, chairman of First Chicago, looks out from the top floor of the

thing more than a \$5 billion-to-\$10 billion [asset] bank in a neighboring state." Thomas made a move in that direction on Nov. 15, naming his heir apparent: 12-year First veteran Leo F. Mullin, who will be president and chief operating officer of the \$53 billion bank. An aggressive, ambitious banker, Mullin is intent on making acquisitions.

A few blocks away, at archrival Continental Bank Corp., Chairman Thomas



FIRST CHICAGO'S THOMAS NEEDS TO BUY TO PROTECT HIS FRANCHISE—AND INDEPENDENCE

57-story bank headquarters, he's fiercely determined to keep First Chicago standing as tall as it did then. Unfortunately, Chicago's banking market, once the nation's second-largest, has been severely bruised, mainly by billions in bad loans outside the Midwest. Now, the surging wave of bank mergers nationwide threatens to engulf the few remaining locally owned banks and transform Chicago from a banking center to a mere colony, like Texas.

Thomas needs to buy to protect his bank's franchise—and even its independence. The 62-year-old executive, now in the final years of a 33-year stint at the bank, is planning big: "I would like to expand our franchise throughout the Midwest," he says, "picking up some-

C. Theobald's voice is hoarse from long hours out hustling corporate clients. His hard work over the past six years is paying off. Once on the brink of bankruptcy, the bank is making respectable money on corporate banking. But many bankers say Continental's best option may be to sell out to the highest bidder.

EARNINGS DOUBTS. The buying activity is certainly getting more intense. Predators already have crossed the border into Illinois, including Minneapolis' First Bank System and Norwest, Banc One of Columbus, Ohio, and even Citicorp. Says Richard M. Kovacevich, chairman of Norwest: "We think Illinois is a wonderful state with great opportunity." Already, two hometown rivals—LaSalle National Bank and Harris Bancorp—have

been picked off by expansion-minded foreign institutions—ABN Amro of the Netherlands and Bank of Montréal.

Despite improved earnings, both First Chicago and Continental are vulnerable. Investors and analysts worry about the quality and reliability of the banks' earnings. For instance, 41% of First's third-quarter profits came from gains on venture-capital holdings. Its hugely profitable credit-card operations are expected to face intensifying margin pressure. Meanwhile, Continental's core corporate business could get more crowded.

Currently, Continental is one of only two major banks whose stock is selling at a discount to book value, and First's is at only a slight premium (chart). The two banks also remain hobbled by so-so credit ratings that limit their ability to raise funds cheaply and build trading businesses. "It's frustrating," says Thomas.

HEAVYWEIGHTS. First Chicago and Continental have been pursuing somewhat divergent strategies to fend off rivals and boost earnings. Continental, which required a federal bailout in 1984 from a stack of bad energy loans, has more recently found itself with souring corporate and real estate loans. So Theobald has ruthlessly cut costs. He fired more than half the staff and farmed out such activities as information technology and legal services. He also has shrunk the balance sheet and shifted away from straight, low-margin lending in favor of cash management and arranging private debt and equity placements.

Continental's tight focus on corporate lending has produced a growing list of customers, from such heavyweights as Deere & Co. and MCI Communications Corp. to entrepreneurs such as Chicago-



CONTINENTAL'S THEOBALD IS FOCUSING TIGHTLY ON CORPORATE BANKING

based Michael E. Heisley, who has acquired industrial companies with total sales of \$1 billion. While First "withdrew to the sidelines" in the past two years, says Heisley, Continental actively courted his business. The payoff for the bank, after a loss in 1991, has been rising earnings, to \$222 million last year and to \$190 million, excluding a tax gain, through the first nine months of 1993.

But Continental still is dogged by bad loans. And with just \$21.8 billion in assets, the bank may be too small to reap the advantages of scale. Theobald also worries that other banks could enter his corporate-banking niche if profits in consumer banking decline. "My fear is that over time, the competitive conditions could swing the other way," he says.

Across town, First's Thomas also has reined in his bank. Since taking over in 1991, Thomas has closed all but 6 of 40 overseas offices. First Chicago also has de-emphasized lending and focused on fee-earning services, such as cash management and capital-markets activities. It has also boosted consumer banking. It even offloaded to another lender a loan to troubled Zenith Electronics Corp., whose

chairman, Jerry K. P... man, sits on the First board. William G. Marshall, treasurer of First client Nalco Chemical Co., praises the bank's "consistent approach from top to bottom."

Thomas has been a rigorous financial disciplinarian in the aftermath of First's disastrous Third World corporate, and real estate lending, which tumbled into its capital base. The bank took a huge, \$2 billion real estate write-off in 1992, spun off its money-management and venture-capital arms, and slashed its stock dividend, which is now increasing.

Of the two banks, experts say Continental is more likely to be bought than to be a buyer. Insiders say there's opposition to the idea of an outside takeover. Analyst John Leonard of Salomon Brothers Inc. reckons there are "a few" U.S. buyers but says Continental's Midwest corporate connections may suit such foreign banks as Britain's Barclays, Hongkong Shanghai Banking Corp., or even ABN Amro or Bank of Montréal.

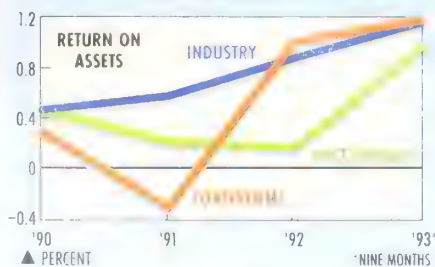
"ONE-TRICK PONY." First Chicago stands a better chance of being an acquirer, according to industry observers. Partridge mentioned range from Detroit's NBD Bancorp to Comerica and First Bank System. "It will be tough for an outsider to catch us in our home market," says Mullin. Still, the bank's stock price makes acquisitions difficult. Some observers think it could instead wind up being absorbed by one of its fast-growing regional competitors.

Unfortunately for Chicago chauvinists, the two banks aren't likely to simply combine. They have discussed a merger periodically since the late 1980s. Continental insiders still express interest in First's corporate bank—but now more inclined to snap at each other. Theobald wonders how First can catch all of its diverse business areas. "They will have to carefully pick the bets they want to make," he predicts. First Chicago Vice-Chairman David J. Vitale predicts his crosstown rival more blunders. Continental's corporate-only strategy, says, is "a one-trick pony."

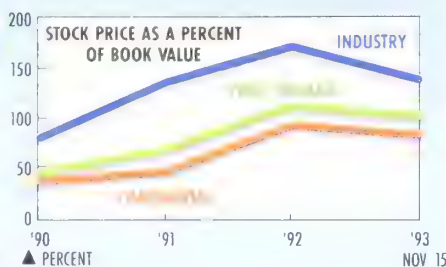
That may be a harsh assessment, unless both banks are fast on their feet they could end up in someone else's stable.

By Richard A. Melcher in Chicago

BIG CHICAGO BANKS ARE REBOUNDED...



...BUT THEY'RE STILL VULNERABLE TO TAKEOVERS



DATA: KEEFE, BRUYETTE & WOODS INC.

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'IT'S INSTANT FINANCIAL SYNERGY'

The acquisitions of the '90s are actually cutting debt costs

Seems that when two companies marry for the right business reasons, other good things often have a way of falling into place.

That is clearly the case with the recent spate of megadeals in which large companies with high credit ratings have acquired, or announced plans to acquire, smaller, weaker, debt-laden companies. Notable examples include Hanson's \$800 million acquisition of Quantum Chemical and the planned mergers of AT&T and McCaw, Bell Atlantic and TCI, and Columbia Healthcare and HCA.

These transactions were driven primarily by long-term strategic objectives. But there is another critical but less publicized thread connecting these deals, one that reflects a major change in corporate dealmaking. During the Roaring Eighties, buyers sought to realize a short-term gain by piling on debt and selling assets. Now, they are realizing quick, handsome financial bonuses by deleveraging companies that have massive debt. Many of today's deals actually promise to reduce debt costs rather than raise them.

BURDENED. Lower debt costs result from the huge interest-rate spread between investment-grade and noninvestment-grade debt, and the ability of the combined entity to refinance the bank lines and public debt of the acquired company at the buyer's coveted high-grade rating. Says Sharon J. Kalin, president of Athene-Coronado Management, a Wall Street arbitrage firm: "It's a byproduct of the better-quality deals we're seeing now. It's instant financial synergy."

Take the case of Hanson PLC, the big, hungry, A-rated British conglomerate. On Sept. 30, the company completed the acquisition of BB-rated Quantum Chemical Corp., a money-losing, New York-based specialty chemical company saddled with nearly \$2.5 billion in high-

yielding bonds. Robert E. Lee, chief financial officer of Hanson Industries, Hanson's U.S. arm, says the prospect of interest savings was an "integral part" of the transaction. "If we couldn't replace any of the debt," he said, "the deal would have been a lot tougher."

In mid-October, Hanson called in some \$1.15 billion in debt paying from 8% to 11% on six separate issues. Because Hanson currently pays about 4-5% on its own debt, it expects to save about \$70 million on this slug of Quantum debt alone. Although these savings weren't

long-term debt—with its stellar AA credit rating. Although Standard & Poor Corp. indicated that AT&T may be downgraded to A if the merger is completed, Hooper, for one, believes the combined company can hold on to its current status. If it does, he says, it should be able to save between \$1 million and \$2 million a week on funding costs.

ROCK-SOLID. In anticipation of the merger, McCaw is replacing its public debt with bank lines that are cheaper just because McCaw now has the blessing of rock-solid Ma Bell. In turn, when AT&T takes over, it will likely replace the credit lines with A-rated debenture. AT&T isn't "supporting the bank lines," says Hooper, "but just the fact that they're there makes it an easier process to go through."

The ability to get out from under a mountain of debt was a major factor in McCaw's decision to merge with AT&T. "We needed expanded sources of equity to expand the business," says Hooper. For AT&T, strategic fit was the "over-



SAVING A BUNDLE

Expected annual interest savings
Millions of dollars

HANSON	70+
QUANTUM CHEMICAL	
Completed 9/30/93	
AT&T	52-104
McCAW CELLULAR	
Announced 8/16/93	
BELL ATLANTIC	60
TCI	
Announced 10/13/93	
HOSPITAL CORP. OF AMERICA	10
COLUMBIA HEALTHCARE	
Announced 10/02/93	

DATA: BUSINESS WEEK

the main reason for Hanson's interest, Quantum's debt burden was the "dominant" force that drove it into Hanson's arms, according to Lee. "We got the benefit," he says, "because high interest costs and debt load left them little room to maneuver."

The \$12.6 billion American Telephone & Telegraph Co.-McCaw Cellular Communications Inc. deal is similar. In effect, says Steven W. Hooper, McCaw's executive vice-president and chief financial officer, AT&T is refinancing McCaw's balance sheet—including its \$4.89 billion in

riding, compelling" motivation, he reports. But he adds that the prospect of improved earnings in the first year of the marriage made it easier for AT&T to tolerate the dilution it would incur by issuing 212 million common shares. "It was a nice bonus," Hooper notes.

Even if AT&T's ratings get taken down a peg when and if the merger is completed, the slightly higher interest charge will be offset in spades by savings from refinancing McCaw's debt. That's because of the difference in the spread between noninvestment-grade

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and investment-grade debt compared with the difference between various levels of investment-grade debt. If, for example, an AA issuer slips to A, the penalty is typically no more than about 20 basis points, traders say. In contrast, the gap between noninvestment-grade and investment-grade debt can be four full percentage points. "If you can bring the combined entity across that barrier, there are always huge savings," says Stephan Newhouse, managing director at Morgan Stanley & Co.

Even though Bell Atlantic Corp. and Tele-Communications Inc. had similar ratings, financial synergies still played a key role in the deal, says Bernard W. Schotters, TCI's senior vice-president for finance. "For our kind of business, access to the capital markets is very important. If it were not well regarded by the market, the deal would not have happened. It would just have been an interesting conversation." He adds that "Bell Atlantic shareholders will inherit a company with significantly better access to capital at somewhat better rates."

SALES BOOST. Analysts also expect the combination of Columbia Healthcare Corp. with Hospital Corporation of America to yield \$10 million in interest savings on HCA's \$2 billion in total debt. The number would be higher if HCA hadn't already refinanced most of its high-coupon bonds with cheaper bank lines in September, says Richard Lechleiter, Columbia Healthcare's vice-president and comptroller. He added, however, that expected savings on interest expense and purchasing costs played a key role in the decision to merge.

Interest-cost savings are not the only virtue in deals that produce stronger balance sheets and higher credit ratings. For example, because Primerica Corp. and Travelers Corp., which agreed to merge in September, are both A-rated, major debt-service savings are unlikely. But the deal could promote higher sales of life insurance, annuities, and other investments. At a time when pension funds and consumers alike are skittish about doing business with second-tier financial-services companies, anything less than a top rating is a distinct disadvantage. Primerica, which will take the Travelers name, hopes that the merger will prompt A.M. Best Co., the insurance-rating agency, to boost Travelers' rating from A-, its fourth-highest. That, in turn, should reinvigorate sales of life insurance and other products.

Corporate synergy may be widely denigrated today. But when it comes to combining balance sheets, one plus one can often be much more than two.

By Phillip L. Zweig, with Leah Nathans Spiro, in New York

THE SEC RESOLVES TO BOW OUT

Battered by the courts, it won't give advice on proxy proposals

The 1994 corporate proxy season is months away, yet it already looks as though it could be one of the messiest—and most litigious—in years.

Traditionally, the Securities & Exchange Commission has served as traffic cop. It gives companies advice about what resolutions proposed by shareholders they may exclude from their proxy statements under the so-called ordinary business exemption. The exemption allows companies to limit investors' input on matters they believe are best managed in the boardroom. Without it, companies would find themselves being reg-

ond Circuit, offers the first glimpse of how the SEC under Chairman Arthur Levitt Jr. plans to interpret the ordinary business rule. Companies and shareholder groups figured the SEC would adopt a more investor-friendly position under Levitt than it had under predecessor Richard C. Breeden. But by refusing even to take up requests from companies about the appropriateness of certain proxy proposals, the Levitt commission seems to be toeing the Breeden line. Levitt declines to comment on the issue while the matter is in the courts.

The SEC's broadest challenge is a lawsuit brought by the New York City Employees' Retirement System. NYCERS disputes an SEC policy banning all employment-related shareholder resolutions from proxy statements. The pension fund won a lower-court ruling in October on the case, but the SEC has appealed. The problem for businesses and investors alike is that the Second Circuit is unlikely to resolve the dispute in time for the 1994 season.

SMALL WINS. Most companies await SEC opinions in December and January to prepare their proxy materials for spring meetings. Last year, the agency reviewed over 200 such proposals, which involved everything from affirmative action to health-care reform.

Other recent cases have raised some of the same political and social issues. One suit, brought by the Amalgamated Clothing & Textile Workers Union, was successful in forcing Wal-Mart Stores Inc. to include on its 1993 proxy statement a proposal seeking information about the company's affirmative-action record. Another forced Dole Food Co. to include a proposal about the impact of health-care reform on the company. Such victories are likely to encourage even more shareholder actions.

Corporations have often had an uneasy time dealing with reform-minded shareholders. But without the SEC as referee, relations between the two sides could well become downright nasty.

By Linda Himmelstein in New York, with Michael Schroeder in Washington

CHALLENGES TO THE SEC'S REVIEW OF PROXY PROPOSALS

- ▶ A federal district court in October ruled the SEC couldn't ban employment-related shareholder proposals from proxy statements. The SEC has appealed.
- ▶ Clothing and textile union appealed SEC decision allowing Brown Group to omit proposal requesting study of the impact of health-care-reform plan. Appellate court heard case on Nov. 15.
- ▶ In suit brought by clothing and textile union, a federal district court in April ordered Wal-Mart Stores to include proposal seeking report on affirmative-action and equal-employment record.

S&P, NOVEMBER 1993

ularly dragged into court by disgruntled investors who want a say over everything from employment practices to whether health benefits should include dental coverage.

The SEC, though, has been hit by several unfavorable court rulings that undermine its authority. In response, it now refuses to give companies any advice until the courts resolve the issue. Citing the murky state of the law, the SEC wrote on Nov. 1 that its actions "would be of little value to public companies." Says Cornish Hitchcock, a public-interest lawyer who represents shareholders in proxy fights: "The SEC just picked up its ball and left the field."

The statement, which was filed with the U.S. Court of Appeals for the Sec-

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TNET	MPL	13.45	+0.30	+0.30		HREG	BST	5.00	+0.20	+0.20	
FNNY	CLM	2.38	+0.54	+0.54		TNET	MPL	13.45	+0.30	+0.30	
MoRe	MJL	1.13	+3.17	+3.17		FNNY	CLM	2.38	+0.54	+0.54	
Dreyfus						Janus					
GWSA	WBD	10.57	+0.01	+0.01		GWSA	WBD	10.57	+0.01	+0.01	
HREG	BST	5.00	+0.20	+0.20		HREG	BST	5.00	+0.20	+0.20	
TNET	MPL	13.45	+0.30	+0.30		TNET	MPL	13.45	+0.30	+0.30	
FNNY	CLM	2.38	+0.54	+0.54		FNNY	CLM	2.38	+0.54	+0.54	
MoRe	MJL	1.13	+3.17	+3.17		MoRe	MJL	1.13	+3.17	+3.17	
Neuberger & Berman						SteinRoe					
GWSA	WBD	10.57	+0.01	+0.01		GWSA	WBD	10.57	+0.01	+0.01	
HREG	BST	5.00	+0.20	+0.20		HREG	BST	5.00	+0.20	+0.20	
TNET	MPL	13.45	+0.30	+0.30		TNET	MPL	13.45	+0.30	+0.30	
FNNY	CLM	2.38	+0.54	+0.54		FNNY	CLM	2.38	+0.54	+0.54	
MoRe	MJL	1.13	+3.17	+3.17		MoRe	MJL	1.13	+3.17	+3.17	
Strong						Fidelity Investments					
GWSA	WBD	10.57	+0.01	+0.01		GWSA	WBD	10.57	+0.01	+0.01	
HREG	BST	5.00	+0.20	+0.20		HREG	BST	5.00	+0.20	+0.20	
TNET	MPL	13.45	+0.30	+0.30		TNET	MPL	13.45	+0.30	+0.30	
FNNY	CLM	2.38	+0.54	+0.54		FNNY	CLM	2.38	+0.54	+0.54	
MoRe	MJL	1.13	+3.17	+3.17		MoRe	MJL	1.13	+3.17	+3.17	
TNET	MPL	1.13	+0.54	+0.54		TNET	MPL	1.13	+0.54	+0.54	

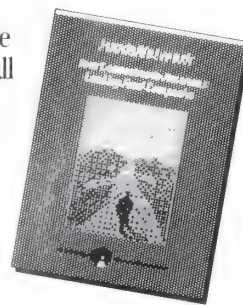
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BY GENE G. MARCIAL

A FERTILE PATCH IN FARM-TOOL COUNTRY

Remember Allis-Chalmers, the old agricultural-equipment maker that fell on hard times in the late 1980s? Well, its business was acquired in June, 1990, by AGCO—and what a turnaround. Sales and earnings have boomed, and the company went public in April, 1992, at \$14 a share. The stock has since jumped to 32.

The question is whether AGCO, a major maker and distributor of tractors and farm-machinery replacement parts, will stay in overdrive. "Bet on it," says a Boston money manager whose investment firm holds a stake of about 5%. He thinks the stock could hit the high 40s in a year.

Indeed, analysts have been raising their earnings estimates to keep up with the company's unanticipated fast growth, mainly fostered by efficient cost-cutting and gains in market share through a couple of recent acquisitions.

"Just when you thought it couldn't get any better, it did," says analyst John McGinty of CS First Boston, referring to AGCO's tax-adjusted third-quarter earnings of 72¢ a share, vs. 23¢ a year ago and his own forecast of 54¢. So he scaled up his \$2.05 estimate for 1993 to \$2.60 and his \$2.45 forecast for 1994 to \$3.50.

In January, AGCO acquired the North American assets and operations of Massey-Ferguson, a unit of Varity, for \$95 million. The acquisition will add some \$20 million, or about \$1 a share, to AGCO's earnings, figures McGinty. In addition, AGCO has agreed to acquire White-New Idea Farm Equipment, a unit of Allied Products, for about \$60 million. He estimates that White-New Idea, with projected 1993 sales of \$82 million, will add about \$5 million (pretax), or 25¢ a share, to AGCO's 1994 earnings.

UNEXPLORED NICHES. McGinty notes that AGCO is a bargain compared with other farm-equipment makers, such as Deere, which sells at 14 times estimated 1994 earnings. AGCO trades at a 9.4 price-earnings ratio. If AGCO traded at a 14 p-e, it would be worth 49.

AGCO Chairman, CEO, and President Bob Ratliff says the acquisition program will continue. There are many niche areas that AGCO doesn't yet serve, Ratliff notes, such as the cotton,

AGCO IS IN OVERDRIVE



DATA: BRIDGE INFORMATION SYSTEMS INC.

wine, and fruit-and-vegetable industries. "Then, there's West and East Europe, which we are eyeing," he says. So far, AGCO exports only modestly to Western Europe, but the potential of the entire European market is huge, he adds.

Ratliff doesn't discount the possibility of AGCO merging with a major company. But there isn't anything definite yet about that, he says.

THE SHORTS ARE SNIFFING DELL

Computer stocks appear to be back in vogue, and some of them have been hot. So hot, in fact, that some pros believe that certain issues, such as Dell Computer, have become overvalued. Dell's stock has heated up to 26 from 16 in early October. Based on this move alone, Eugene Glazer, veteran technology analyst at Dean Witter Reynolds, has downgraded its rating from "buy" to "neutral."

Others are even more bearish on Dell, which manufactures IBM-compatible personal computers and sells them through its own direct-marketing program. One New York money manager figures a lot has changed in computer telemarketing. "It has become much more competitive because Compaq Computer, Digital Equipment, and a resurgent IBM have entered the arena forcefully with cheaper, well-configured machines," he says.

This pro notes that Dell's "cost structure has become too high compared with its chief competitors." One of them, Gateway 2000, which will go public soon, has operating expenses of

less than 7% of sales, compared with Dell's nearly 15%. So he insists that current estimates on Dell are "too high" and figures the stock could slump to the low teens.

Neeraj Vohra, an analyst at Standard & Poor's, observes that because Dell has had difficulty coping with its rapid growth, the company is no longer the price leader it once was. "Gateway 2000, Compaq, and Ambra are the new price leaders," he says. Vohra thinks Dell will have a turbulent second half and will be in the red until the fourth quarter. He figures the company, which earned \$2.59 a share in the year ended Jan. 31, 1993, will post a loss of \$1.45 a share in 1994.

AN AIDS TREATMENT FROM CANADA

It wasn't long ago that a stock zoomed at the mere hint of a link to an AIDS-related product. Although that kind of clout has all but faded on the Street, some pros are buying Quebec-based Biochem Pharm because of its experimental anti-AIDS drug, 3TC. Pharmaceutical giant Glaxo is Biochem's partner in developing it.

Biochem's stock, which traded on the NASDAQ at 9 in mid-October, has risen to 11½. Its supporters think the stock could hit 20 over the next months.

One reason, they say, is that 3TC was cleared by the Food & Drug Administration on Nov. 3 for the "compassionate use program." Canada has allowed the drug to be dispensed under a similar program. The U.S. plan allows physicians to provide 3TC free of charge to HIV-infected patients who fail to respond to or can't tolerate other anti-AIDS therapy, such as AZT. "Be sure, 3TC, which is taken orally, isn't a cure for AIDS, explains Tim W. son, an analyst at Hambrecht & Quisenberry who is bullish on the stock. He says the drug inhibits the disease's spread by interacting with an enzyme that the AIDS virus tends to replicate. Dr. John Gillard, Biochem's vice-president for therapeutic research, explains that 3TC tricks the virus into using the wrong molecular "building block" to duplicate itself. And, he adds, 3TC doesn't produce the harsh side effects that other therapies can provoke. Clinical tests on 3TC are expected to be completed by early 1994, after which Glaxo will seek FDA approval to market it in the U.S. Dr. Gillard says 3TC also can be used to treat hepatitis B.

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IT'S A MAD, MAD, MAD, MAD WIRELESS WORLD

As FCC restraints fade and new technologies emerge, a host of rivals are scrambling for riches

It has shades of the '49 California Gold Rush. But this time, the precious commodity is airwaves. There's a fortune to be made in providing truly untethered communications—so people can stay in touch anytime, anywhere. That's why entrepreneurs and corporate moguls alike are hustling to stake a claim. The fever is evident on Wall Street. While they have fallen from record highs, shares in wireless upstarts have soared—Nextel Communications Corp. is up to 42%, triple its 52-week

low, while Dial Page's shares are up more than six times, to 53%.

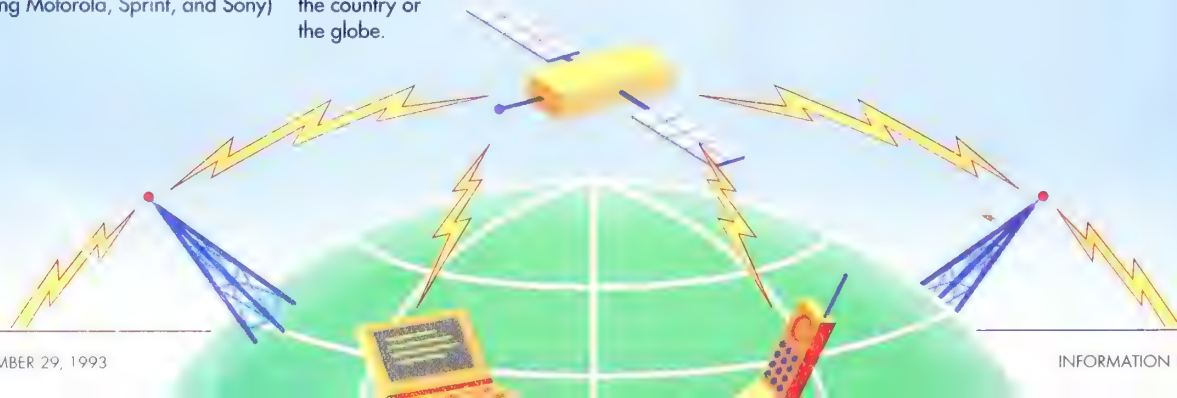
The wireless boom that began with cellular phone systems has accelerated as new technologies emerge. In September, the Federal Communications Commission set off a mad scramble with plans to auction a huge swath of spectrum for the wireless personal communications services (PCS) that could challenge local phone systems. In early November, Motorola Inc. laid the groundwork for a national wireless sys-

tem to compete with cellular when sold its specialized mobile radio (SMR) systems (used mostly for dispatching cabs and delivery vehicles) to Nextel, Dial Page, and CenCall for stock value at \$3 billion. Everybody—from American Telephone & Telegraph Co., which has agreed to pay \$12.6 billion for McCaw Cellular Communications Inc., to Japan's Sony Corp.—is investing in wireless.

The lure is a market that in the U.S. alone will triple from \$14 billion in 1993 to \$45 billion by 2002 as the number

THE RUSH TO STAKE WIRELESS CLAIMS

System/Players	How it works	Prognosis
ENHANCED CELLULAR Baby Bells, AT&T (through McCaw Cellular), GTE, Sprint, others	By adding radio equipment and moving to digital technology, carriers can greatly expand number of customers they can serve.	Ubiquitous coverage, established customer base, but warring digital standards and patchwork ownership make it tough to provide seamless nationwide roaming.
ENHANCED PAGING Most Baby Bells, SkyTel (MTel), PageNet, EMBARC (Motorola)	New technology added to the radio-based systems will allow two-way paging, so customers can acknowledge receipt of a page.	Old but still popular, reliable, and cheap; adding limited two-way capability may spur further growth.
SPECIALIZED MOBILE RADIO (SMR) Nextel, CenCall, Dial Page	These local voice-dispatch networks, used by truckers and taxis, will be converted into cellular-like systems through new digital technology from Motorola.	Handles voice and paging messages in one pocket-size phone. It also should allow easy nationwide roaming. But digital cellular could catch up.
RADIO-BASED DATA NETWORKS ARDIS, a joint venture of Motorola and IBM; Ram Mobile Data, a joint venture	Nationwide system of radio towers sends text to handheld computers.	Sends long data files efficiently and cheaply by transmitting them in bursts, or packets. But it faces competition from cellular and SMR, which also will offer voice calling. No voice transmission yet.
PERSONAL COMMUNICATIONS SERVICES (PCS) Likely players include Baby Bells, GTE, long-distance carriers, cable-TV operators, startups	Like cellular, but uses lower-powered radio transceivers spaced closer together, for higher capacity and presumably lower customer costs.	Licenses won't be auctioned until spring. PCS operators could overspend for air rights, and they must catch up with other wireless providers. Market potential uncertain.
SATELLITE American Mobile Satellite, Orbital Communications, Iridium (consortium including Motorola, Sprint, and Sony)	Will use relatively inexpensive satellites to send and receive voice and/or data to handheld devices around the country or the globe.	Expensive to put in place, which may result in costly rates; rise of seamless cellular networks could limit its appeal.





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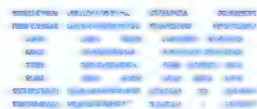
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wireless callers swells from 40 million to 90 million, according to Arthur D. Little Inc. That's why scores of players are crafting new systems using variations on a half dozen or so wireless technologies, including cellular, paging, SMR, and satellite (table, page 128). With new digital technology it is possible to adapt all sorts of wireless systems for any-time/anywhere communications. That's how Nextel and the other SMR operators plan to compete with cellular.

DARWINIAN SHAKEOUT. But only a few systems will make it: In a typical urban area, says ADL Senior Consultant Barry Goodstadt, only four services—including the two existing cellular systems—can make a reasonable return. But perhaps a dozen competitors will try. "That means a lot of people are going to go under," he warns.

Not before a lengthy, Darwinian struggle, though. The investment in new networks will be huge, but prices will have to be low to create a mass market—and will be driven lower as competition increases. Says John E. Rooney, president of Ameritech Cellular Services: "I'm going to fight everybody out there for every customer."

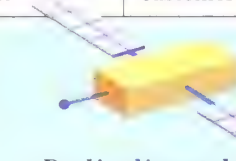
Until recently, such a free-for-all would have been unthinkable. Traditionally, the FCC divvied up the air space for specific purposes. SMR operators were largely restricted to dispatch services and cellular carriers to mobile phone calling. The FCC is easing such constraints, and digital technology is blurring the distinctions between the networks. Even networks that now carry simple paging signals could in theory be upgraded to carry voice, too. Similarly, new signaling systems will enable cellular operators to carry paging.

Who will come out on top? The cellular operators have a significant head-start. One big advantage is the amount of spectrum they have to work with. The FCC has allotted 50 megahertz for each cellular market but only 12.5 Mhz for SMR, for instance. That extra bandwidth gives them the channels to serve more customers and makes it easier for cellular operators to cram in more services. In addition to paging, they are getting further into wireless data communications with a standard called Cellular Digital Packet Data (CDPD), which takes advantage of the natural pauses in conversations to send bursts of data.

Also, after a decade, cellular operators are "well down the cost curve" with both phones and network equipment, notes Eric Ensor, associate director of worldwide wireless strategy for BellSouth Corp.

Cellular doesn't have a lock, however. New wireless services will mean price pressure: When PCS services started in London, cellular carriers slashed rates. The same could happen here, beginning in 1995. Also, cellular operators must navigate a risky transition to digital technology. Digital, which can pack more calls over the same number of channels, could be a big help in easing capacity problems. But cellular operators are slow to install digital systems that use two different, incompatible technologies, complicating the creation of seamless connections between regions.

That could provide an important opening. The three SMR operators allied with Motorola "have a unique opportunity to build a single system nationwide," says Nextel Vice-President Jack A. Markham. By deploying new digital gear from Motorola and working together to enable customers to use each other's networks,



*Radio-dispatch
systems could
build a national
network to
compete with
cellular
operators*

the SMR triumvirate proposes a system that eventually will provide voice, data, paging, and dispatch services over the same network—and over a single phone. Nextel is working out the final bugs in its first digital system in Los Angeles and will put customers on-line starting Jan. 1.

ROLLS ROYCES. A national system is another matter. The companies must make huge capital outlays to convert from trunked systems, where all information flows into and out of a central transmission point, to webs of cellular-like transmitting stations. Installing about 125 cell sites in Los Angeles alone will cost Nextel \$30 million. With a hot stock, debt sale, and equity investments from the likes of Motorola, Comcast, and Matsushita, Nextel says financing won't be a problem.

The most-publicized threat to cellular may be PCS networks. These systems use microcells—using a series of low-power devices—could provide a single phone for mobile and at-home use. But PCS will be a late starter and expensive to build. And there are at least four competing PCS technologies, making for a potentially compatibility nightmare.

Worse, "there's nothing these networks can do that cellular can't already

" insists Joseph McMonagle, Southwestern Bell Corp.'s associate director of strategic business development. Cellular operators can add their own micro-cellular setups in their existing frequencies. Southwestern has sold 60 of its Freedom Link systems, which put micro-cells in buildings or on campuses. Also, cellular carriers are determined to snap PCS licenses.

In the short run, at least, the costs of different technologies may organize the market in a hierarchy. The most deluxe wireless networks will be the satellite setups from operators such as American Mobile Satellite and Iridium, a \$3.4 billion Motorola project that has the backing of Sony and Sprint, among others. Iridium promises communications from any point on the globe—for \$3 per minute vs. 30¢ on cellular.

The Chevy to satellites' Rolls Royce is paging, the oldest wireless technology and the most limited. Pagers will continue to be lighter and cheaper than other wireless devices. But pagers are learning new tricks, too. With bigger screens, they now can receive more information, including stock quotes, news updates, and other short messages. Next year, AT&T Corp. plans two-way paging.

DATA-ONLY HOPES. And while cellular carriers experiment with the CDPD system to handle packets of data, wireless data systems are getting more sophisticated. The biggest are Ram Mobile Data Ltd., a joint venture of Ram Broadcasting and BellSouth, and ARDIS, owned by IBM and Motorola. Both offer two-way data communications over special handheld computers. "We're convinced there's a very strong data-only market out there," says Charles E. Nahabedian, Ram's vice-president for network business development. The market has been mostly mobile workers—field technicians or sales reps—but the carriers have high hopes for a broader market with electronic-mail services.

However it plays out, getting there from here won't happen overnight, nor will it be easy. Some technical challenges remain formidable. To build a mass market, for instance, the industry must develop lots of complex software to let incompatible networks and technologies connect with each other, making wireless easy for callers to use as the wired phone system.

Even if there's an eventual tendency toward convergence in technology and services, one size won't ever fit all. As shopping, restaurants, or any other consumer service, customers will want a variety of choices—which means opportunities for would-be wireless wonders. But the '90ers learned, plenty of what looks like the real thing will turn out to be fool's gold.

By Lois Therrien in Chicago

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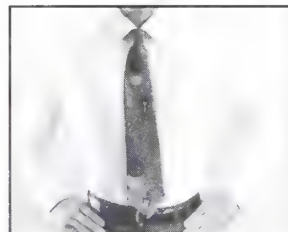


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CAN JOEL HYATT KEEP OHIO METZENBAUM COUNTRY?

The legal-chain chief vies for his father-in-law's Senate seat

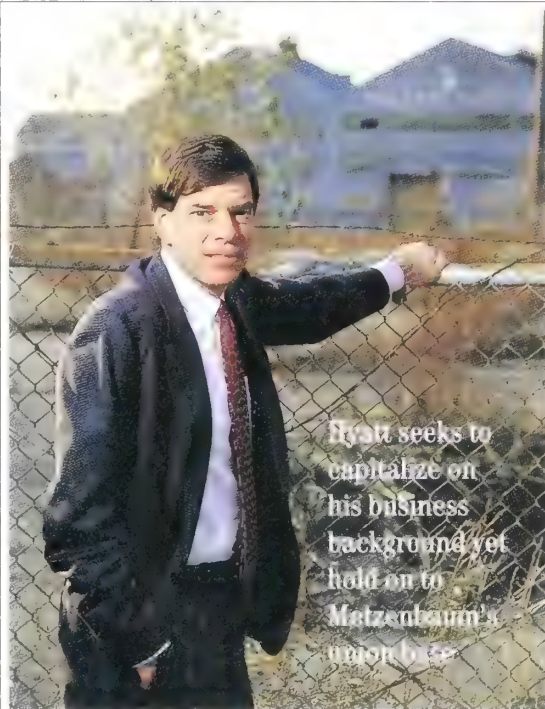
The upscale crowd gathered for the Beachwood (Ohio) Chamber of Commerce lunch is the sort of conservative business group that Democratic Senator Howard M. Metzenbaum loves to hate. But with Metzenbaum, a millionaire who nevertheless bashes the rich and powerful, retiring next year, the scramble is on to fill his seat. On this sunny November Wednesday, the suburban Cleveland business group listens attentively as the early front-runner—a successful entrepreneur seeking public office for the first time—praises free enterprise and warns of the evils of government regulation.

Joel Z. Hyatt certainly doesn't sound like Metzenbaum—who happens to be his father-in-law. But Hyatt isn't pushing his family ties. He's already known to TV viewers coast to coast as the smiling pitchman for Hyatt Legal Services, the chain of discount law offices he founded.

NO SHOO-IN. Hyatt's name recognition, wealth, and media skills make him a formidable contender. Metzenbaum didn't announce his retirement until June 29, discouraging rivals from entering the field. And Hyatt has raised more money than all other contenders—of both parties—combined. Still, the 43-year-old Hyatt is no shoo-in. Many Democratic operatives complain that Hyatt has never toiled in the trenches. Others grumble about a Metzenbaum dynasty. And Hyatt is squishy on important issues. He supports health-care reform, for example, but won't commit to the Clinton plan or any specific alternative. He says he's skeptical of government involvement in business but adds that Washington can play a useful role in creating jobs and protecting workers' rights.

Joel Hyatt has dreamed of a Senate seat for a long time—though not always.

The son of David Zylberberg, a Polish engineer who escaped the Holocaust by emigrating to the U.S. in 1939, Hyatt wanted to be a baseball player. "By the time I was in high school, I knew I wouldn't hit the curve ball well enough to get into the big leagues," he says. "That's when I knew I would be involved in politics." Hyatt went to Dartmouth College and Yale University Law School. He met his future wife, Susan Metzenbaum, on a blind date. In 1976, Susan's father, a



Hyatt seeks to capitalize on his business background yet hold on to Metzenbaum's union base

Cleveland parking-lot magnate and two-time Senate loser, named his 26-year-old son-in-law as campaign manager.

Hyatt—who switched his middle and last names after law school—ran a campaign that relied on TV advertising rather than field organizing, a dramatic strategic shift for Midwestern Democrats at the time. His approach was vindicated when Metzenbaum ousted Republican Robert A. Taft Jr.

Hyatt never lost his fondness for TV. In 1977, after the U.S. Supreme Court cleared the way for lawyers' advertising, he left the New York firm of Paul, Weiss,

Rifkind, Wharton & Garrison to create storefront practice. His audacious gamble: Use television to sell the middle class on getting cheap wills and divorces from offices located in high-traffic shopping areas and open evenings and weekend. His white-shoe colleagues, Hyatt recalls, "really thought it was a crazy idea."

Hyatt laughed all the way to the bank. Hyatt Legal Services "was a good idea whose time had come," says consumer attorney Con Hitchcock. The rapid growth continued into the 1980s, when H&R Block Inc. acquired the right to manage the business for \$2 million. Hyatt stayed on to run it. But expansion brought problems. Some customers complained of poor service, while employees groused about low pay and overwork. After losing \$11.3 million on the investment, H&R Block sold the business in 1987 to a group that included Hyatt and Texas investor Robert Bass. "When you have a hot idea, you want to move as quickly as you can," r

HYATT'S RESUME

BORN: May 6, 1950, Cleveland

EDUCATION: Dartmouth, Yale Law

EXPERIENCE: Founded Hyatt Legal Services in 1977; sold its assets to H&R Block in 1980. Expanded the chain to 600 lawyers before retrenching in late 1980s. Repurchased it, with other investors, in 1987.

POLITICAL PHILOSOPHY: Calls himself a "principled pragmatist," liberal on social issues, moderate on economics. Eschews the antibusiness liberalism of father-in-law Senator Howard Metzenbaum.

POTENTIAL SENATORIAL OPPONENTS: Democrats include Cuyahoga County Commissioner Mary O. Boyle and Representative Marcy Kaptur; Republicans include Lieutenant Governor Michael DeWine, former NIH Director Bernadine Healy, State Senator Eugene Whitt.

BY GUY LAWRENCE

flects Hyatt. "We overtaxed the management team."

Hyatt has restructured his company, closing some unprofitable storefronts and concentrating instead on higher-margin prepaid legal plans offered as a benefit to many employers. Customers include PepsiCo, American Telephone & Telegraph, John Deere, and General Motors. Hyatt predicts "explosive growth" for Hyatt Legal Plan, which now covers about 1 million workers.

But the 76-year-old Metzenbaum's decision to retire prompted Hyatt to trade law book for politics. Some observers e

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skeptical about his chances. A University of Cincinnati poll released Nov. 15 showed that while Hyatt leads all potential Democratic and Republican rivals, 46% of those who had an opinion viewed him unfavorably. "He gets tarred with the image of being an ambulance-chasing lawyer," says poll director Alfred J. Tuchfarber.

To win the nomination, Hyatt must defeat Cuyahoga County Commissioner Mary O. Boyle, a skilled grass-roots politician who is hoping to tap her traditional coalition of labor, environmentalists, education activists, and women's groups. Representative Marcy Kaptur, a rising Democratic star, could try to parlay her high-profile NAFTA opposition into a Senate seat but may decide not to risk her safe House seat.

HEALTH-CARE SNARE. Republicans, meanwhile, see the race as one of their best chances to capture a Democratic seat. GOP front-runner Michael DeWine, Ohio's lieutenant governor, is the favorite of local party apparatchiks. Former National Institutes of Health Director Bernadine P. Healy is a dark horse who has tapped into what promises to be the hottest political issue of 1994: health care. And State Senator Eugene Watts is trying to build a coalition of conservative activists and business leaders.

Hyatt is seeking to capitalize on his business background without alienating the unions that formed the backbone of the Metzenbaum organization. The candidate calls his approach "principled pragmatism." Reluctant to attack his father-in-law's antibusiness record, Hyatt says their differences would be stylistic and generational more than philosophical. But others see major differences between the two men. "Howard Metzenbaum is a symbol of class-warfare politics," says Cleveland attorney Robert P. Duvin, a conservative Republican. "Joel comes from a whole different life experi-

"He gets tarred with the image of being an ambulance-chasing lawyer," says one polling expert

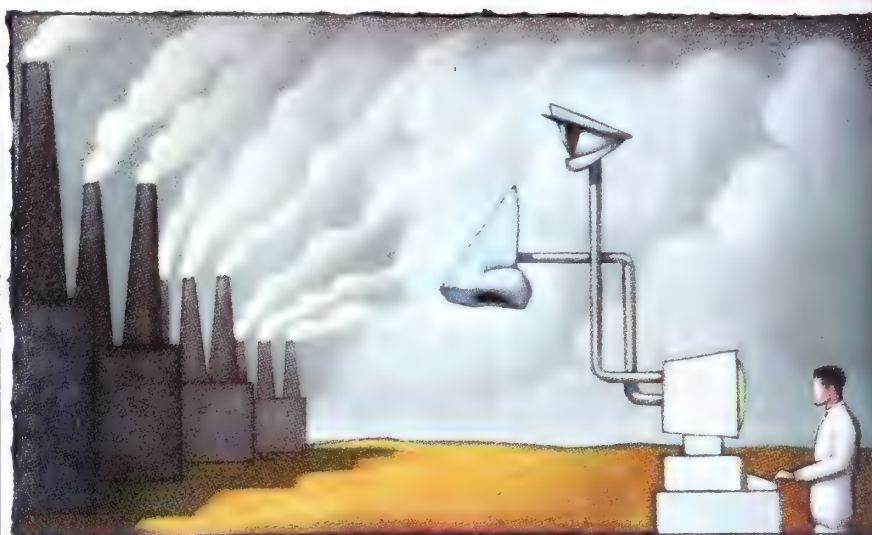
ence. He's less suspicious of business."

Hyatt is well aware of the public's disdain for attorneys. He got a laugh when he told the Beachwood Chamber of Commerce: "I daresay I know more lawyer jokes than any of you." To win, Hyatt must convince voters that he's more than a punch line. That means selling himself as an innovative businessman who has created jobs, not just another TV lawyer with family connections.

By Richard S. Dunham in Cleveland

Legal Affairs

ENVIRONMENT



FRESH AMMO FOR THE ECO-COPS

What price pollution? New methods try to calculate it to the dollar

How much value does the public place on being able to see from one side of the Grand Canyon to the other? How much recreational enjoyment is lost when beaches are closed to the public because of pollution? And what is the life of a sea otter worth?

These and other questions like them seem all but unanswerable. Yet they are becoming part of another layer of enforcement and potential liability in some of the largest pollution cases being played out between regulators and companies. At issue is a controversial technique known as contingent valuation in which a cross section of individuals is asked how much it values particular natural resources. The responses are used increasingly by regulators to force companies to pay hefty fines to compensate the public for damages to resources that are in some cases neither replaceable nor easily quantifiable, such as migratory birds, marine life, or forests.

BIGGER CHECKS. Contingent valuation is just one of the ways federal and state regulators are broadening their approach to enforcing a growing body of environmental laws. Now, instead of simply being held liable for punitive fines and cleanup costs, corporations are more often being called upon to pay for restoring the environment to the way it was before being damaged. They are also

being asked to shell out funds to prevent future injuries to the environment.

For businesses, these expanding views of liability can translate into writing bigger checks. According to an Oct. 18 Justice Dept. report, states and the federal government have collectively recovered about \$175 million from companies to pay for damages to natural resources not including \$1 billion paid by Exxon Corp. to settle the Exxon Valdez case.

In New York alone, state regulators say they have collected \$12 million more than they would have in the past five years because they can compel companies to cover current and future damages to natural resources. "Parties used to pay nothing for these things because they were considered too difficult a measure," says Gordon J. Johnson, deputy bureau chief of the New York Attorney General's environmental unit. "If fishing yields were down for years, the public absorbed the losses. Now, the polluter will pay for them."

New York obtained its extra booty part by using a computer model made up of chemical, biological, and economic data to estimate losses to the economy and ecosystems. It can calculate everything from the mortality of shellfish to recreational losses from polluted beaches. New York used the model to compute damages to birds, fish, and the ocean.

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floor following a 1990 oil spill in New York harbor. Of a \$4 million settlement, \$3.3 million is earmarked for restoring natural resources. Other states and the U. S. government also use the technology, though data bases are adjusted to particular geographical areas.

Environmentalists and enforcement agencies cheer the contributions made by the technology. These proponents say the computer model allows for a more consistent—and less emotional—approach to enforcement. But many companies and their lawyers contend it drastically overstates damages. They say it is unable to reflect such variables as changing wind speeds and tides that can affect the scope of damages. "The criticisms made against this model by the scientific community are substantial," says Charles B. Anderson, an expert in maritime and environmental law.

Even more controversial is the contingent-valuation method. Although the technique is now employed in relatively few cases, wider use is under consideration. The Interior Dept. and the National Oceanic & Atmospheric Administration (NOAA), which are the trustees of the nation's land and marine resources, are currently reviewing the accuracy of the technique. Interior conducts damage assessments under the Superfund law, while NOAA assesses damages to the oceans from oil or toxic spills under the Oil Pollution Act. Seventeen of the largest industry groups filed comments with Interior in September that oppose contingent valuation. Both agencies' regulatory proposals are expected by the end of the year.

ALASKAN SURVEY. The most celebrated use of contingent valuation was by the state of Alaska to help it put a price tag on environmental damages in the Exxon Valdez disaster. A group of 1,400 people from around the country were asked about 50 questions to find out how much they would be willing to pay to prevent a similar disaster from happening again. The state wanted to know how people who had never visited Prince William Sound valued preserving and restoring its pristine environment. One question asks whether individuals would pay a one-time charge to have oil tankers escorted by ships carrying equipment that could contain spills.

Extrapolating from the results of the questionnaire, researchers estimated that Americans would spend nearly \$3 billion to avoid another accident. "The value the public places on environmental resources, even though they don't directly use those resources, turns out to be a fairly large sum of money," says Raymond J. Kopp, who worked on the Exxon study and is a senior fellow at

THE CHANGING LANDSCAPE OF ENVIRONMENTAL ENFORCEMENT

LIABILITY COMPANIES FACE

- ▶ Punitive damages for criminal and civil environmental violations
- ▶ Costs to clean up contaminated sites
- ▶ Fines assessed to restore the environment
- ▶ Other penalties for environmental intangibles, such as the loss to the public for not being able to use a polluted beach or for damages to natural resources that cannot be restored

WILLIAM REGAN

Resources for the Future, a nonprofit research institute in Washington.

Many environmental activists and regulators praise the technique as revolutionary. "This is currently the only means by which to put a dollar amount on resources without traditional market value," says Sarah Chasis, an attorney at the Natural Resources Defense Council, an environmental outfit. Chasis says polluters must pay for diminishing the public's enjoyment of natural resources.

But a growing chorus of economists, industry groups, and legal experts blasts such surveys as unreliable, irrational, and random. "The whole thing is fundamentally crazy," charges Harvard University economics professor Zvi Griliches, who was a consultant to Exxon. "Asking a housewife in Raleigh what a seal is worth to her in Alaska doesn't strike me as sensible."

In general, Griliches and other critics question how people who have never used a resource can accurately value it, damaged or not. To bolster the point, Anderson, the maritime legal expert, highlights surveys such as one done in Texas to determine what residents would personally pay to protect whooping cranes. The average amount: \$7.13. When multiplied by the state population, that totaled \$109 million—a payment Anderson says folks would never make if they really had to, even though

the individual amount appears so small.

At the heart of the criticism lies the idea that it is impossible to calculate the value of moral and spiritual feelings people have for the environment. "There is no money meter that accompanies a person's appreciation for the environment," argues Philip A. Cooney, an attorney at the American Petroleum Institute. "You don't look at a sunset and say, 'Wow. That's a \$50 sunset.'"

DIRECT HELP. Not every emerging method used to safeguard the environment is under attack. The newest get-tough tactics at the Environmental Protection Agency are meeting with praise from businesses and environmentalists alike. On Oct. 13, EPA Administrator Carol M. Browner announced a plan to centralize the agency's enforcement machine and to unify its policing operation. Even more meaningful is the EPA's plan to breathe new life into an old idea: getting companies to put their money into programs that directly benefit the environment rather than the U. S. Treasury.

Traditionally, fines are based on a company's economic gain in breaking the law, the gravity of the offense, and, in some cases, the damage to the environment. But now, the EPA also wants companies to use their money to improve the environment. "To keep slapping somebody on the hand saying 'pay this' or 'pay that' doesn't accomplish the job," says Steven A. Herman, the EPA's enforcement chief. "We have to move away from just money."

This philosophy already has seeped into the EPA's caseload. In May, Louisiana-Pacific Corp. agreed not only to pay \$11.1 million to settle a case but also to spend \$70 million installing pollution-control equipment at 11 of its facilities. And in September, CSX Transportation Inc. agreed to pay a \$3 million penalty as well as spend \$4.1 million to conduct environmental audits at its facilities nationwide. "Our view is that this will change CSX from a chronic polluter to a model operator of railroads," says the EPA's Herman.

Such proactive approaches to enforcement seem on the right track. They not only minimize companies' potential liabilities but also help prevent future environmental damage. More troubling, however, are the efforts to use surveys to put a price tag on fresh air and clean water. For these measurements, enforcers must take extra care to ensure that they are fair and reasonable while accurately reflecting the public's interests. That's a difficult task—but one worth pursuing in a world that depends on thriving commerce and a healthy environment.

By Linda Himmelstein in New York and Mary Beth Regan in Washington

"You don't look at a sunset," argues an oil-industry attorney "and say, 'Wow. That's a \$50 sunset' "

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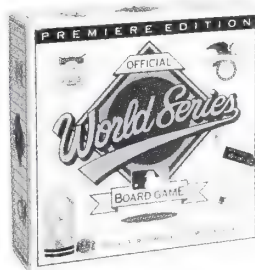
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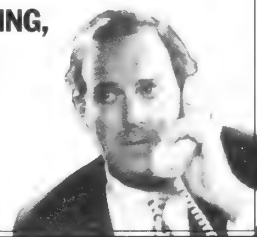
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EDITED BY AMY DUNKIN

Collecting

HUNTING FOR VINTAGE CARS? STEP ON IT

Speculators fueled rampant price increases in everything from houses to antique art in the late 1980s. But then the floor fell out, and many were burned. Collectible cars were no exception: Prices have plunged as much as 60% on certain pre-1970 models since 1990.

I've watched the exotic-car

being met one year ago, auction houses are reporting brisk sales. Kruse International in Auburn, Ind., sold more than half the cars offered in its last seven auctions, up from one-third earlier in the year. And the newsletters that follow different autos are showing upswings in asking prices for the first time since

rari 225 Mille Miglia Vignale racing car for \$625,000. Three years ago, it was going for \$2 million. "Now is a very opportune time to buy," says Bowes, a serious collector. "I don't think you'll ever see them at these low prices again."

Old cars aren't just for those who can write \$1 mil-

have brought two years ago. "People are bottom-fishing, putting things away because they know prices will go down. They may not go as high as before, but they'll go," says Rick Cole of World Class Auction & Exposition in Danville, Calif.

Some collectible cars have already made the turn. At



1934 DUSENBERG LE GRANDE ESTIMATED PRICE \$1 MILLION

market for more than a decade with my father, who publishes the *Ferrari Market Letter* and wakes the neighbors on Saturday mornings by taking his 1954 Tojeiro-MG open-cockpit, two-seat roadster for a spin. He decried the drive-up in prices, saying it was pushing true car enthusiasts out of the market. But the crash has weeded out the speculators, and prices have bottomed out. I haven't seen a buyer's market this good for vintage autos in years.

Indicators of a turnaround are everywhere. Where minimum bids commonly weren't

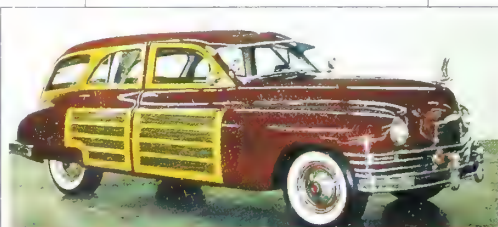
1989. For example, the *SL Market Letter* predicts that a 1957 Mercedes-Benz 300 SL Roadster could be worth \$230,000 by 1995, 30% more than the current average asking price of \$178,000. "Car buffs haven't given a fix to their addiction in about two or three years, so they're looking to buy," explains Brian Jackson, owner of Barrett-Jackson Auction Co. in Phoenix.

BARGAIN JAG. Take Gerald Bowes, a collector from Philadelphia. Recently, he purchased a 1953 Fer-

lion checks. There are cheaper buys, even in the exotic makes. A 1950 Jaguar XK 120 Roadster in decent condition recently sold for the bargain price of \$32,000, while a 1965 Ferrari 330 GT 2+2 is being offered in Connecticut at \$34,800, less than half of what the sleek Italian car would

tion houses report increase in selling prices for Jaguar and Mercedes-Benzes, as well as old Chrysler convertibles and 1946 wood-bodied Fire station wagons, the first post-World War II model. Ed Davies, a Coral Gables (Fla.) collector who has bought cars in the past six months alone, says sellers are giving him only two weeks to make up his mind after looking at a car, compared with two months a year ago.

Even though the allure of collectible cars is strong, don't



1948 PACKARD WOODY ESTIMATED PRICE \$35,000

impulse. While the cars increase in value, the best return on investment for most collectors is the enjoyment they get from taking their prizes on the road. First-time buyers should limit the kicking to one make. John

Barrett-Jackson (602 273-0791) specialize in collectible cars. Ask to be put on their mailing list or notified when they're about to auction a car that you might be interested in. And be sure to check the Sunday classifieds of major

newspapers.

Don't buy without personally examining a car. Pictures sent through the mail or faxed aren't likely to show defects. And some sellers try to pass off fake collectible cars, ones with expensive bodies rebuilt on cheap chassis,

as authentic. "When the price is too good to be true, it probably is," says Michael Sheehan, owner of European Auto Sales in Costa Mesa, Calif.

Look at the asking prices in the publications. If a car is offered for significantly less than others being advertised, there could be something



CADILLAC V-16 ROADSTER
ESTIMATED PRICE \$250,000

Olson, editor of the *SL Market Letter* and author of *Secrets of Buying and Selling Collector Cars*, suggests picking a collectible version of an auto still being made. "Nositalia dies off with the generation that knew them," says Olson, while older versions of vintage cars are easier to resell. Olson recently responded to two ads in *The New York Times*. The 1917 Chevrolet convertible sold the morning the ad ran. But there had been only one other on the market on a 1963 Studebaker Avanti, and it was from someone who just wanted to know what a Studebaker Avanti was.

Decide on the model you want best. If you're a Porsche fan and want one from the 1960s, pick a 356 or a 912. According to the *Porsche Market Letter*, more than two dozen each are for sale across the country, and a few can be purchased for less than \$100,000.

CLASSICS. The newsletters and magazines that cater to the market can offer suggestions on potential purchases, hard-to-find cars, and places to buy when you're ready to move on. Several auction houses, notably Kruse International (800 968-1111), World Classic (736-0695), and



1963 FERRARI GTO
ESTIMATED PRICE \$3 MILLION

wrong, either mechanically or cosmetically. Many of the newsletters track average asking prices back two or three years, so you can tell whether the car's value is going up or down. If the price has been sliding, drive a hard bargain. Some buyers hire experts to inspect a car first. But these advisers usually charge traveling expenses, plus \$1,000 and up for their time and knowledge.

Now comes the hard part:



1935 AUBURN BOAT-TAIL SPEEDSTER
ESTIMATED PRICE \$160,000

HELP FOR CLASSIC-CAR COLLECTORS

Publication	Cost	Comments
CARS OF PARTICULAR INTEREST 301 317-4228	\$204 issues	No cars for sale, but lists all selling prices
DUPONT REGISTRY 800 233-1731	\$39.95/12 issues	Includes all collectible cars, from Corvettes to Rolls-Royces
THE ELLERMAN REPORT 804 784-0011	\$49/6 issues	Specializes in Bentleys and Rolls-Royces
HEMMINGS MOTOR NEWS 802 442-3101	\$23.95/12 issues	Most comprehensive, lists all cars and parts
PORSCHE MARKET LETTER 602 345-4570	\$55/12 issues	Shows 944 and 944 Turbo prices are down
SL MARKET LETTER 612 377-0155	\$77/18 issues	Says Mercedes-Benz prices haven't dropped as much as others
THE SPORTS CAR MARKET LETTER 503 252-5812	\$48/12 issues	Lists Alfa-Romeos; British and German cars

SOURCE: BUSINESS WEEK

determining if the car is worth its asking price. Buyers should examine repair and maintenance records, and they might take the car to an independent mechanic to have the engine checked out. Modifications to originals are not necessarily bad unless you're planning to enter the vehicle in a *concours d'élégance*, a competition for car buffs and their pristinely restored classics.

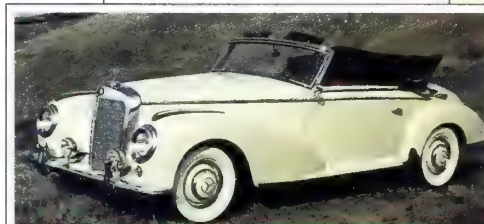
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leery of cars more than 20 years old with low mileage unless the owner can document it has been stored and driven sparingly. And if an owner says the paint and interior are original on that 1946 Cadillac convertible, walk away unless you see cracks in the seats and dings in the paint.

If the car has been restored, ask who did the work and find out their qualifications. Many exotic-car owners have spare parts. Ask if they are included in the deal, as they might be difficult to locate.

It can be easy to

check whether the car you're thinking of buying has the rearview mirror in the correct place or if it originally came with that garish dashboard clock. Simply shoot a picture of the car and take it to your local library. Then compare its features to those in *Road & Track* or *Car & Driver* when the auto was test-driven as a new model. Some Ferrari owners go as far as writing the factory in Italy and asking for copies of production papers. Tell the seller you would like to get in touch with former owners.



1957 MERCEDES CABRIOLET
ESTIMATED PRICE \$240,000

With their emotional attachment gone, they can give an honest appraisal.

Once you plunk down your money, you don't have to treat the car like a china doll. Feel free to take it out and drive it. If you've made a good choice, in a few years the price should go up. Then you can sell and start the chase all over again. *Chris Roush*

Buying

FOOD CO-OPS: WHAT HIPPIES DID RIGHT

Debbie Wood drinks soy milk, eats all-natural kosher hotdogs, and prefers organic produce. But buying alternative products at a local health-food store wasn't much of an option. "I gasped at what they wanted for things," says Wood, a child-development specialist. So to stick with her diet—and within her budget—she helped launch the Sunshine Health Food Co-op in Annapolis, Md. She now saves up to 50% on such items.

Do-it-yourself food-buying cooperatives, once thought of as counterculture ventures, are booming in mainstream communities. By pooling orders, members of the nation's 4,000 co-ops trim the cost of everything from tofu to light bulbs, saving up to 35% on grocery bills, estimates Bob



Pickford, chief operating officer of the Federation of Ohio River Cooperatives (FORC), a co-op supplier in Columbus.

To start your own co-op, first contact the National Cooperative Business Assn. (202 638-6222). For \$5.75, you can pick up its helpful book, *Starting Out Right: Guidelines for Organizing a New Retail Cooperative*. Next, round up interested co-workers or neighbors. Economies of scale will increase purchasing discounts, so recruit as many

families as possible: 6 to 10 is a good start. There's no telling where that will lead. Brooklyn's Park Slope Food Co-op began in 1973 with 10 members and has grown to 4,800, with \$7 million-plus in sales at its one store.

SHORT HOURS. Once you've gathered a group, you'll need to delegate such responsibilities as collating orders and phoning or faxing them to the wholesaler, breaking down shipments, and bookkeeping. No one should have to volun-

teer more than three hours a month. Also, calculate any costs the co-op will incur and figure out how you'll meet them. Annual fees of \$20 on average are one option. Your biggest expense will likely be renting space to break down shipments. Wood pays a month to rent a community center for two hours. It makes sense to create a reserve, perhaps through a deposit refundable when a member leaves, to cover unexpected costs.

Goods can be bought from 12 warehouses that specialize in supplying co-ops, as well as from regular grocery wholesalers. FORC, which is available in 10 Eastern states, uses computers to break down group orders into individual family invoices, saving the co-op time on the receiving end. Such conveniences help make food-buying co-ops an alternative worth checking out if you want to eat well and save. *Janet*

Banks won't give up when it comes to delivering services to the home. Unable to cajole many customers into using personal computers to make banking transactions from their dens, the banks are now introducing screen phones for that same purpose. Citibank joined the fray on Nov. 9, teaming up with Ameritech to begin marketing a Philips Electronics model to Chicago customers next spring. Other institutions, including Maryland National, are already making screen phones available.

The new devices, which look like a cross between a standard desk phone and a portable computer, can be quite useful, enabling customers to do almost everything but get cash without going near a bank branch. What's more, screen phones have the potential to deliver a host of nonbank-

Banking

HOME BANKING, TAKE 2

ing conveniences, such as the ability to purchase theater tickets and peruse newspaper classified ads.

But some consumers will simply use screen phones for checking balances and other business they may be able to conduct for free on an automatic voice-response tele-

phone line. Unless your bank is offering a lot of extra services you're confident you'll use, the extra equipment cost might not be worth it.

AT&T thought consumers might come to that conclusion when earlier this year it backed out of a venture with Columbus (Ohio)-based Huntington National Bank to develop a sophisticated screen telephone. The multifeatured phone would have cost nearly \$500.

SHOPPER'S DELIGHT. The more recent launches are less expensive. Initially, consumers in and around Chicago will be able to rent the new Citibank units for under \$10 per month or buy

them for less than \$100. Those phones are full of features, including caller identification, bill paying, and stock purchasing. Another is a screen phone, from US On-line, will cost slightly more, but in addition to allowing banks to do business, it will include a "swipe" slot for credit-card transactions with mail-order companies.

While many people don't mind using a regular phone for simple transactions, they have shown resistance to giving their banking through more versatile home computers. The latest devices combine the best of both worlds: the familiarity of the phone and the visual capabilities of a screen. Of course, at-home banking might have the best chance of succeeding if it could be conducted through another appliance whose usage comes as second nature to every customer: the TV set. Bankers say that day is not far off. *Kelley Holm*



CITIBANK PHONE: BUY IT OR RENT IT



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Smart Money

TIPTOEING OUT OF YOUR IRA

You thought the hard part about retirement planning was socking away your hard-earned dollars year after year. But planning the withdrawals from your individual retirement account can be just as tough. You probably know there is a penalty if you touch your IRA money too early, but did you realize there is an even stiffer penalty if you withdraw it too late? "They get you coming and going," says Betsy Sue Shannon, a senior manager in the personal financial planning group at KPMG.

You can avoid these and other penalties and have some

have a lot of flexibility when withdrawing money and will only incur a penalty beyond regular income taxes if their account is very large. Generally, the IRS imposes a 15% penalty tax on the amount you withdraw over \$150,000 in one year, although there are some exceptions.

You can get your hands on your money before age 59½ without triggering the 10% penalty on early withdrawals if you use IRS formulas to schedule equal distributions at regular intervals for the rest of your life. However, you need to continue with the schedule only until you reach 59½ or for at least five years, whichever is longer. A 50-year-old who starts taking payments can modify the



You also have a choice of two formulas for determining life expectancy. Under the "recalculation" method, your life expectancy gets slightly longer for each additional year you live. Under the "term certain" method, years you and your spouse are estimated to live are fixed. Most banks and brokerages use the calculation method as default, although term-certain has significant tax planning benefits for married couples, says Isaacson. "It's important to make an active decision," he says.

TAPPING YOUR IRA? KNOW THE RULES

Error	Penalty	IRS limits
Withdraw too much under 59½	10%	Maximum distribution based on life expectancy
Withdraw too little over 70½	50%	Minimum distribution based on life expectancy
Withdraw too much	15%	More than about \$150,000 in one year with some exceptions
Die with too much money still in account	15%	About \$1 million

DATA: BUSINESS WEEK

control over your money if you can follow a set of rules so complex they take up 75 pages in Internal Revenue Service handbooks. People with large accounts should get professional advice. But find someone who has training in the new art of "distribution planning," says Seymour Goldberg, partner in the Garden City (N.Y.) law firm of Goldberg & Ingber. Similar rules also apply to 401(k)s, Keoghs, and other retirement plans.

The ages 59½ to 70½ are the "golden years," says Joel Isaacson, a New York tax planner. Account holders between these age brackets

schedule or take a lump sum at age 59½, but someone who starts at 56 will have to wait until 61 to alter the plan.

Devising a payment schedule basically entails dividing your account by your life expectancy. But there are countless ways to calculate this, depending on whether you name a beneficiary, whether the beneficiary is your spouse, which IRS actuarial chart you use, and what you project the return on your account will be. To withdraw as much money as possible early, factor in as high an interest rate as the IRS will consider "reasonable." The faster your ac-

count is projected to grow, the more you can take out early each year.

People who don't need the income and want their IRA to accrue interest tax-deferred as long as possible must use IRS formulas and tables to calculate the minimum they must withdraw each year. After 70½, you face a staggering 50% penalty if you take out too little. For example, if you should have withdrawn \$1,000 but you took \$600, you'll pay \$200 in penalty taxes.

DEATH-DEFYING TAX. Again, how you calculate your life expectancy will dictate how much you can leave in your IRA. If you designate a beneficiary, you can average your two life expectancies, which can stretch out the number of years and cut the minimum distribution each year. If your beneficiary is not your spouse, you can use a maximum 10-year differential.

If you turned 70½ this year, you need to make these decisions soon. You can wait until Apr. 1, 1994, but then you will have to take two distributions next year, which could push you into a high marginal tax rate or force you to pay the 15% tax on excess withdrawals. You must indicate your decision in writing to the IRA administrator.

A final 15% penalty tax is triggered if you die with more than about \$1 million in your account. As much as 80% of your leftover retirement savings can go to penalty and estate taxes if you don't plan carefully, says Jim Sullivan, senior manager at Arthur Andersen in the individual services practice. So, whether you want access to your money sooner or later, tread carefully. The IRS has created a minefield of penalties to navigate. *Amey St.*

Worth Noting

■ **BUM BROKERS?** If you've been burned by a broker, you may stand a better chance of getting your money back with *The Six Biggest Mistakes Investors Make... After They Have Been Ripped Off*. The free booklet (800 678-8185) from Investors Arbitration Services, Woodland Hills (Cal-

if.) consultants, also explains abuses such as churning.

■ **HOLIDAY TIPS.** Let experts help you design a holiday menu and decorations by calling MCI Entertains Friends: Family (800 HOST-TIPS). The free call gets you recorded recipes from the likes of J. Smith, public TV's *Fruit Gourmet*, and Sirio Maccioni, owner of Le Cirque restaurant in New York.

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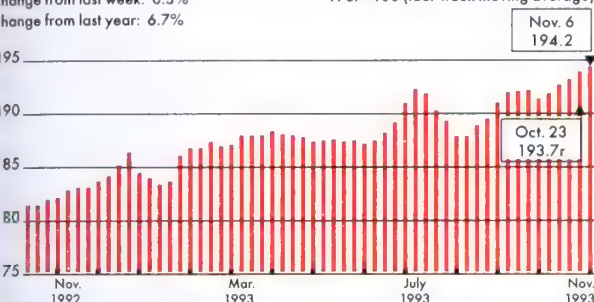
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BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 6.7%

1967=100 (four-week moving average)

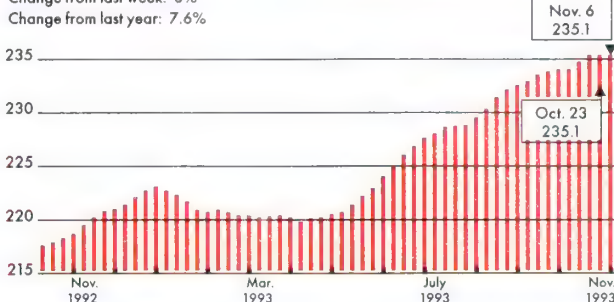


The production index increased during the week ended Nov. 6, as auto makers carried out their ambitious production plans. In addition to hefty gains in auto and truck production, seasonally adjusted output of coal, electric power, and paper also rose. Steel, paperboard, and lumber output declined, while crude-oil refining and rail-truck traffic were unchanged from the previous week. Before calculation of the four-week moving average, the index rose to 195.4 from 193.6.

BW production index copyright 1993 by McGraw-Hill Inc.

LEADING

Change from last week: 0%
Change from last year: 7.6%



The leading index was unchanged during the week ended Nov. 6. The bearish tone of the stock and bond market is sending negative signals about the economy's future path. Also, the growth rates of materials prices and M2 dropped, while business failures rose. The growth in real estate loans increased sharply. Before calculation of the four-week moving average, the index stood at 234.7, down from 233.8 in the previous week.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (11/13) thous. of net tons	1,893	1,834#	10.6
TRUCKS (11/13) units	136,804	134,642r#	6.9
TRUCKS (11/13) units	110,514	115,612r#	14.7
ELECTRIC POWER (11/13) millions of kilowatt-hours	56,072	56,331#	1.2
CRUDE-OIL REFINING (11/13) thous. of bbl./day	13,658	13,624#	0.5
ALUMINUM (11/6) thous. of net tons	19,003#	18,384	-6.2
PAPERBOARD (11/6) thous. of tons	840.4#	864.0r	3.7
PAPER (11/6) thous. of tons	821.0#	820.0r	3.1
WOOD (11/6) millions of ft.	476.4#	483.6	-0.2
RAIL FREIGHT (11/6) billions of ton-miles	22.8#	23.0	0.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (11/17)	107	107	124
GERMAN MARK (11/17)	1.71	1.70	1.58
BRITISH POUND (11/17)	1.48	1.47	1.53
FRENCH FRANC (11/17)	5.91	5.91	5.36
CANADIAN DOLLAR (11/17)	1.32	1.31	1.28
U.S. DOLLAR (11/17)	1.50	1.50	1.42
MEXICAN PESO (11/17)	3.215	3.151	3.119

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British and expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
WHEAT (11/17) \$/bushel	375.000	374.900	11.9
SCRAP (11/16) #1 heavy, \$/ton	137.50	137.50	54.5
STEEL (11/16) index, 1967=100	220.8	215.5	9.0
PAPER (11/13) c/lb.	80.0	82.8	-20.4
MINIMUM (11/13) c/lb.	49.5	49.5	-6.6
FEAT (11/13) #2 hard, \$/bu.	3.66	3.50	-1.1
IRON (11/13) strict low middling 1-1/16 in., c/lb.	56.48	56.24	12.3

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (11/12) S&P 500	462.46	463.52	9.9
CORPORATE BOND YIELD, Aaa (11/12)	6.92%	6.85%	-15.0
INDUSTRIAL MATERIALS PRICES (11/12)	94.0	94.0	-2.1
BUSINESS FAILURES (11/5)	341	330	-18.2
REAL ESTATE LOANS (11/3) billions	\$404.7	\$402.8r	-0.1
MONEY SUPPLY, M2 (11/1) billions	\$3,494.9	\$3,496.0r	0.5
INITIAL CLAIMS, UNEMPLOYMENT (10/30) thous.	340	348	-4.2

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (Oct.) total index	112.2	111.4r	4.4
CAPACITY UTILIZATION (Oct.)	82.4%	81.9%r	2.7
CONSUMER PRICE INDEX (Oct.)	145.5	144.9	2.7
RETAIL SALES (Oct.) billions	\$177.3	\$174.7	6.2

Sources: Federal Reserve Board, BLS, Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/1)	\$1,118.7	\$1,114.5r	10.0
BANKS' BUSINESS LOANS (11/3)	273.4	270.7	-2.6
FREE RESERVES (11/10)	900	867r	36.0
NONFINANCIAL COMMERCIAL PAPER (11/3)	161.0	158.9	14.1

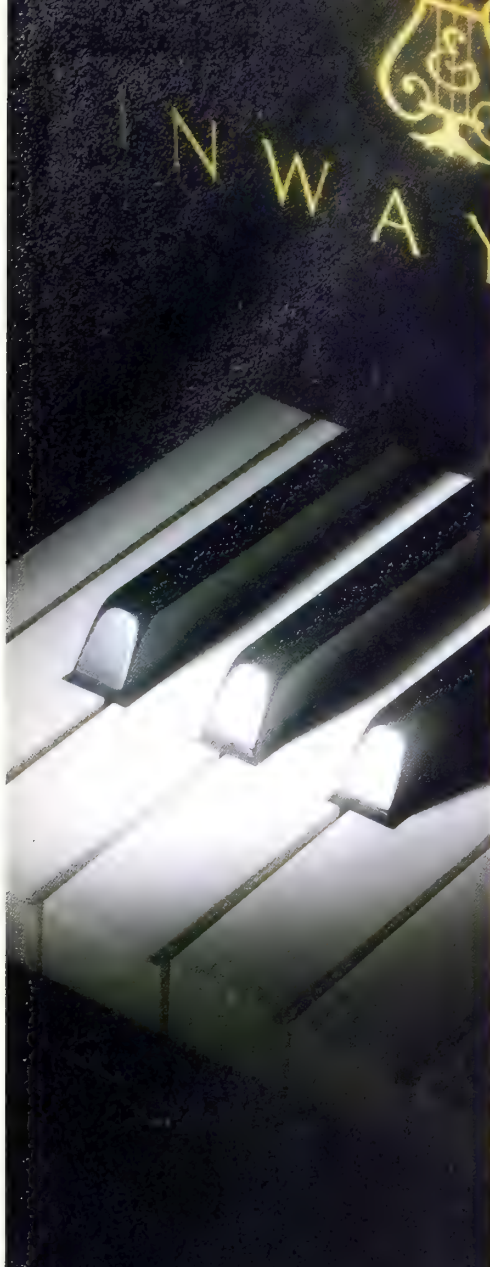
Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/16)	3.02%	2.95%	2.97%
PRIME (11/17)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (11/16)	3.40	3.39	3.76
CERTIFICATES OF DEPOSIT 3-MONTH (11/17)	3.32	3.33	3.68
EURODOLLAR 3-MONTH (11/12)	3.38	3.35	3.61

Sources: Federal Reserve Board, First Boston

W data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful



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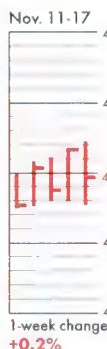
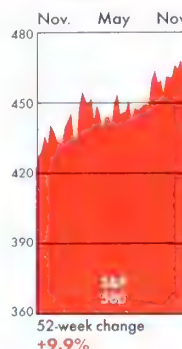
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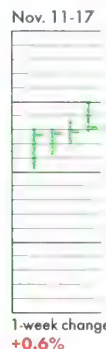
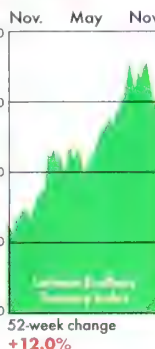
MENTARY

ng that the controversial American Free Trade Agree- would pass in Congress, equi- estors rallied and pushed the ones industrials over 3700. ig winner was beleaguered up \$2 per share or 4% for the Over the past month, inves- oked more favorably at Big with a 19% gain. Beyond the the market was more muted. roader S&P 500 stock index only a slight gain, and prices all and midsize companies' declined.

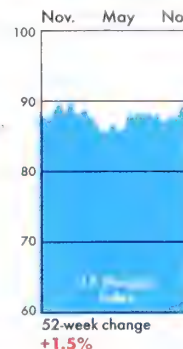
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3704.4	1.1	15.5
ZE COMPANIES (S&P MidCap Index)	173.1	-1.0	14.0
COMPANIES (Russell 2000)	253.7	-1.3	22.1
COMPANIES (Russell 3000)	267.2	-0.1	10.9

ION STOCKS	Latest	% change (local currency) Week	% change 52-week
ON (FINANCIAL TIMES 100)	3120.0	0.7	15.4
ON (NIKKEI INDEX)	18,108.7	-0.1	7.9
TO (TSE COMPOSITE)	4236.5	-0.8	31.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.16%	3.19%	3.21%
30-YEAR TREASURY BOND YIELD	6.18%	6.21%	7.51%
S&P 500 DIVIDEND YIELD	2.71%	2.75%	2.96%
S&P 500 PRICE/EARNINGS RATIO	22.7	22.5	22.8

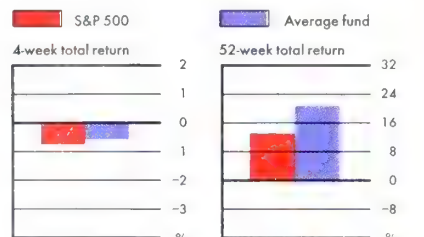
TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	455.1	454.2	Positive
Stocks above 26-week moving average	54.4%	54.5%	Negative
Speculative sentiment: Put/call ratio	0.35	0.44	Neutral
Insider sentiment: Vickers sell/buy ratio	2.21	2.24	Neutral

INDUSTRY GROUPS

WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
ER CONTAINERS	16.1	-14.0	STONE CONTAINER	25.8	-46.9	9 3/4
MPUTER SYSTEMS	13.8	-13.2	IBM	19.9	-18.7	52 1/2
CKING	11.4	-2.4	CONSOLIDATED FREIGHTWAYS	28.3	32.1	22 1/8
ER	11.0	7.6	GEORGIA-PACIFIC	22.3	29.8	74
MPUTER SOFTWARE AND SERVICES	10.7	36.0	NOVELL	28.8	-24.8	24 5/8
WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
ELS AND MOTELS	-13.0	73.2	PROMUS	-18.6	212.3	66 3/4
INSURANCE	-12.2	7.9	TORCHMARK	-20.6	-20.6	42 1/2
LUTION CONTROL	-11.8	-33.0	ROLLINS ENVIRONMENTAL SERVICES	-16.3	-56.4	5 1/8
AND GAS DRILLING	-10.0	14.0	ROWAN	-12.3	4.4	8 7/8
EXPLORATION AND PRODUCTION	-7.4	2.7	ORYX ENERGY	-9.5	-0.6	21 3/8

MUTUAL FUNDS

ERS	%	LAGGARDS	%
Week total return		Four-week total return	
HAM GOLD EQUITIES INDEX	15.6	DFA JAPANESE SMALL COMPANY	-11.9
ESCO STRATEGIC GOLD	15.6	CAPSTONE NIKKO JAPAN	-8.2
NGTON STRATEGIC INVESTMENTS	14.3	EATON VANCE TOTAL RETURN	-8.2
k total return		52-week total return	
NGTON STRATEGIC INVESTMENTS	234.2	PILGRIM CORPORATE UTILITIES	-18.2
ED SERVICES GOLD	107.0	INVESCO STRATEGIC ENVIRONMENTAL SERVICES	-14.5
ECK INTERNATIONAL INVESTORS	103.5	JENSEN	-9.4



ACTIVE PORTFOLIOS

amounts	Foreign stocks	Treasury bonds	U.S. stocks	Gold	Money market fund
ent the present of \$10,000					
ed one year ago					
y portfolio	\$14,158	\$12,394	\$11,365	\$11,228	\$10,217
ages indicate	+1.42%	+0.72%	+1.39%	-0.27%	+0.04%
y total returns					

on this page are as of market close Wednesday, Nov. 17, 1993, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close

Nov. 16. Mutual fund returns are as of Nov. 12. Relative portfolios are valued as of Nov. 16. A more detailed explanation of this page is available on request.

DELIVERING ON ASIA'S RICH PROMISE

Asia's billions. For decades, those words meant masses of impoverished people. No longer. Today, when people speak of Asia's billions, they're likely to be talking about its wealth—the world's highest savings rates, fastest-growing family fortunes, and heftiest foreign-currency reserves. With growth three times as fast as the West's, China and the rest of East and Southeast Asia have a burgeoning middle class and a growing roster of millionaires.

For the first time since the 15th century, when Europe pulled ahead of China and moved the world's center of gravity westward, economic power appears to be shifting back toward the East. The return of a muscular China to the global arena offers both opportunities—and serious challenges—in the decades ahead (page 100).

The U.S. stands to benefit tremendously from the forces shaping Asia. President Clinton is embracing this opportunity by sitting down with Chinese President Jiang Zemin and 10 other national leaders at the Asia-Pacific Economic Cooperation (APEC) summit in Seattle this week. The challenge for the U.S. is to replace its stale cold-war hostility and sermonizing with a forward-looking China policy: one based on joint interests.

The best way for the U.S. to promote human rights in China is to encourage reforms that foster private ownership, a market economy, and the rule of law. Tiananmen Square was a disgrace. But today, China has more pluralism, more access to information, and more freedom than ever before, thanks to the opening of its economy to foreign trade and investment. Raising living standards for China's people, not lambasting politicians in Beijing, is the most effective way for Washington to promote human rights in that country.

The U.S. has a strong hand in doing just that. America has shown itself to be far more willing than Japan to share technology with Asian companies and to open its domestic markets to Asian exports. It is up to Clinton at the APEC meeting to make sure these bargaining chips are exchanged for greater access to Chinese and East Asian markets for American investments and exports.

HUNGRY FOR WESTERN GOODIES

A transpacific growth strategy is one card the Administration should be playing. China is the world's fastest-growing market for telecommunications, commercial jets, and energy and infrastructure equipment. East Asia's middle class has a huge appetite for Western goods and services. It's a strategy of mutual benefit.

China's biggest challenge is managing its new wealth so that it continues to spread throughout society. The economic boom to date has been financed by the Chinese diaspora—Chinese families in Hong Kong, Taiwan, Southeast Asia, and North America. Operating through *guanxi*, or personal connections, often in total secrecy, these families are growing stupendously rich. They are the ones blazing the path in China. Lured by private stakes in state-owned enterprises and property and annual returns of up to 60%, they are pouring billions of dollars into China every year.

Hong Kong's Gordon Wu, educated at Princeton University and one of China's leading tycoons, is fond of comparing the Li, Kuok, Riady, and other Chinese families to America's "robber barons"—the Vanderbilts, Rockefellers, Carnegies. Just as they built America's railroad, oil, and steel empires, so too are these Chinese families building Asia's industries and infrastructure.

But just as the concentration of wealth in too few hands proved economically and politically dangerous in the U.S., ushering in Teddy Roosevelt and the trust-busters, it also prove counterproductive in Asia—eventually.

The histories of Spain, Argentina, the Philippines, and other countries offer examples of what happens when a few families capture most of the wealth. Stagnation, oligarchy, and various forms of feudalism and fascism often follow. China's own history is full of rich dynasties ruling masses of peasants. Such a volatile mix has periodically led to revolt—the latest being the communist revolution in the 1930s and 1940s.

CLEAR RULES OF THE GAME

Today, *guanxi* may be the driving force behind practically all growth in China. Highly placed communist government and army officials are selling state assets to overseas Chinese families. People's Liberation Army regional commanders are exporting armaments. Provincial party bosses are selling off state businesses. Local mayors are arranging real estate deals. To many first-generation Chinese millionaires, short-term profits based on such deals are a way of life. For communist cadres, it is a sure-fire way to amass private wealth from state-owned property.

But *guanxi* can go only so far. Singapore's Lee Kuan Yew believes China must move beyond an economy based on secretive old-boy networks to a broad-based market system based on law and clear rules. Family connections that substitute for law cannot sustain long-term growth on the massive scale required in China and the rest of East and Southeast Asia.

To their credit, authorities in Beijing, Bangkok, Jakarta, and Hong Kong are setting up stock exchanges, bond markets, pension funds, and clean banking systems to channel the region's huge savings more efficiently. New regulatory systems that promote transparency have already increased fledgling stock-market capitalization from practically nothing just two years ago to \$32 billion, and a "dragon bond" market, resembling the Eurobond market, is taking off.

The big question is politics. China's strong growth cannot be sustained by expanding its home-grown entrepreneurial middle class. Will the new mandarins of China—the communists in control of state assets—give up their privileged position for the sake of democratizing the economy and promoting growth? And will the families of the Chinese diaspora, particularly the second generation, forsake short-term deals with politicians to become patient capitalists investing for the long haul? Unless the rules of the game change and Chinese enterprises of Motorola, Sony, and Siemens are built, the current surge of wealth in East Asia may ultimately choke future economic growth, not promote it.



William A. Frezza and the Bad News Bowlers coming home from a day at the Morrisville Lanes.

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American Airlines
First and Business Class

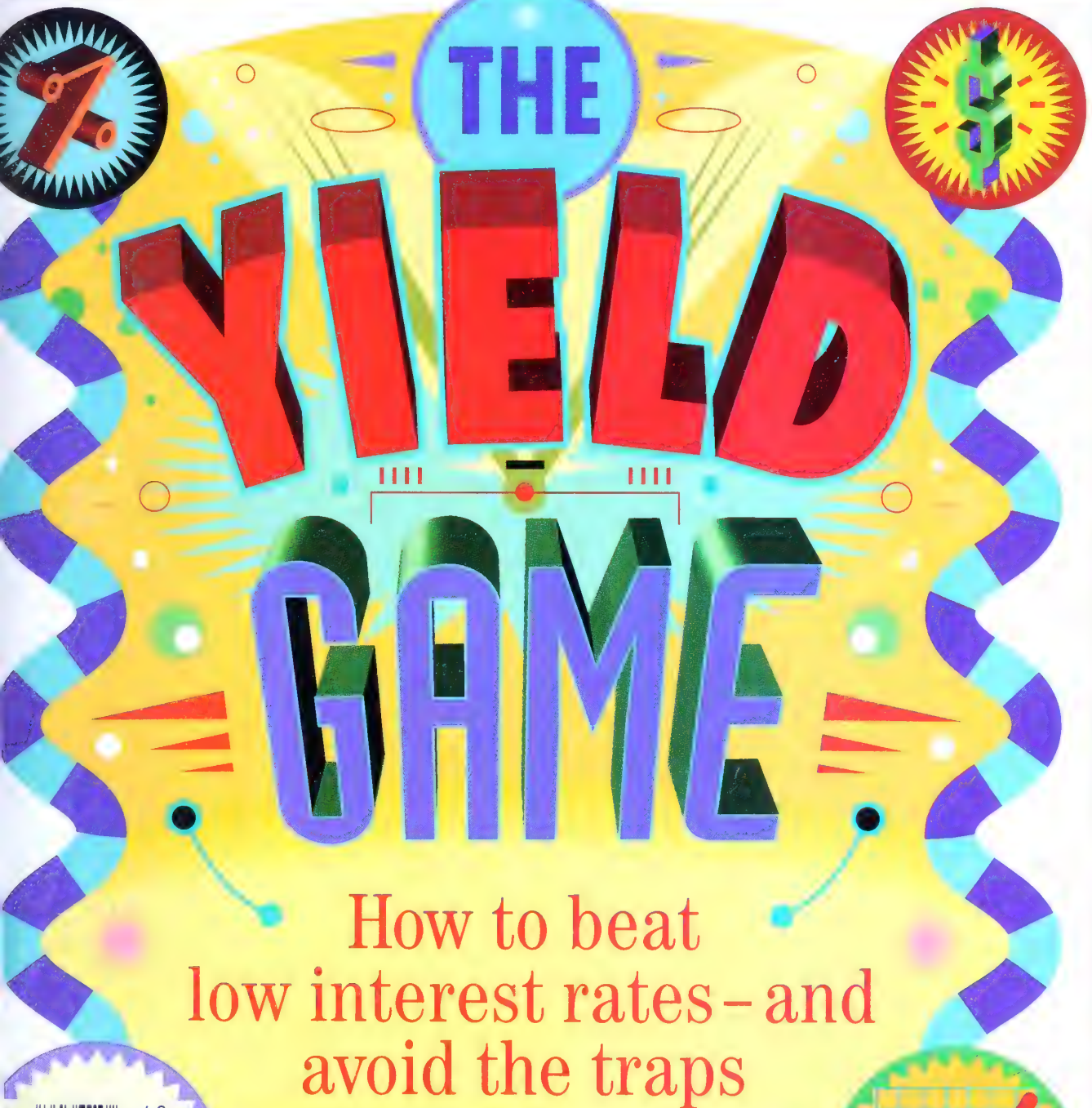
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Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER



DAD AND JR., 1987: Simple as that

PEROT NOTES

IS THIS HOTEL REALLY NECESSARY?

The Perot family is in a new real estate dustup—this time over a \$124 million, 850-room hotel-and-parking-garage project in Kansas City, Mo. As with their controversial Alliance Airport in Fort Worth, they want heavy public backing for this deal, headed by Ross Perot Jr. Ross Sr. isn't directly involved. Local

critics charge the deal is tilted toward the Perots, leaving K.C. burdened with most of the liability if the hotel runs into trouble.

The Perots figure there's a market for a hotel next to the city's convention center, which is being expanded. When they couldn't find outside backers, they turned to the idea of a public-private partnership.

Problem is: How much of each? The Perot group wants to kick in just \$3 million in equity and have the city raise \$121 million in bonds, to be paid off out of hotel revenues and taxes. But such critics as city Finance Director Verlyn Leiker grouse that if revenues fall short, the city, not the Perots, could end up forking over up to \$36 million in payments over 15 years to service the debt. The City Council tentatively approved the Perot plan by a vote of 10-2 in early November, but after the local outcry, put it on hold while an independent study is made. *Richard A. Melcher*

AFTERLIVES

A DAYDREAM ON WALL STREET: FREDDY'S BACK

Frederick Joseph, forbidden to run another securities firm following his ill-starred tenure as chief of now-defunct Drexel Burnham Lambert during the Michael Milken years, may soon be back in the Wall Street mainstream. Sources close to Joseph say he is looking at setting up an investment advisory outfit. This comes after talks with Oppenheimer

years from supervising anyone on Wall Street because he didn't stop Milken's abuses. But Joseph figures he has wiggle room: He can own the



JOSEPH: Such tooth!

& Co. about an investment-banking job came to naught. Although two sources say there were discussions, the firm and a Joseph spokesman deny that.

In May, the Securities & Exchange Commission barred Joseph for life from running a securities firm and for three

TALK SHOW

I don't routinely get calls from the White House, so I picked it up right away.

—Robert Crandall, CEO of American Airlines, who bowed to Oval Office pressure to end the five-day flight attendants' strike.

GRAVE MATTERS

STUDIO BACK LOT OF THE LIVING DEAD

Hollywood may soon be able to recreate the likes of Humphrey Bogart, Charlie Chaplin, and Marilyn Monroe through computer animation, putting them in



PLAY IT AGAIN: The *Maltese Gold-Rush Itch?*

new movies with live stars. And that's going to spawn a lot of legal wrangling over who gets paid and who gets control over the posthumous careers of screen

legends. What if studio execs already drooling over recasting the most bankable actors in history, want to put Marilyn in an X-rated flick?

Right now, few states have laws shielding people from commercial exploitation after death. Following a brouhaha over an ad featuring John Wayne in drag, California passed its law granting po-

advisory outfit and have someone else run it.

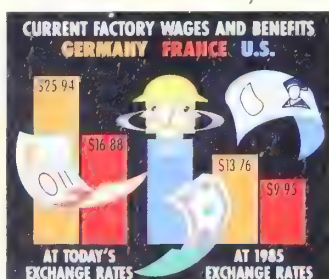
Joseph, 56, will need a new job soon. His \$325,000-a-year gig as a consultant to the \$1.1 billion DBL Liquidating Trust runs out at year-end. *Leah Nathans Spiro*

mortem protection for years. Law Professor Joseph Beard of St. John's University, whose law review article *Casting Call for Lawn* explores reanimation, thinks the new technology will be a boon to living actors. He says they can profit by "selling postmortem rights before they die." The technology could be here in several years. Now, computer images move with Claymation stiffness. *Linda Himelstein*

REALITY CHECK

U.S. POLICYMAKERS SAY we've pulled ahead of our European rivals on the wage front. And that stands to make us a lot better off in the global marketplace. European officials chide their workers for making such high

wages, blaming them for the European Community's economic ills. The average German factory worker earns \$25.94 an hour in pay and benefits, a French worker \$16.88. But their American cousin scrapes by with \$16.11.



IN REALITY, much of America's advantage stems from exchange rates. If we returned to 1985 rates, when the U.S. had the stronger currency, our wages would be the higher. The German worker's current 40.51 marks an hour would be worth only \$13.76. And a French worker would cost \$9.95. Indeed,

European executives these days are sounding just like American honchos did back then, when an overvalued dollar made our \$13.01 average seem way out of line. Lesson for all: Don't crow about advantage based on such fleeting conditions as foreign exchange rates. *Aaron Bernstein*



Soon every UPS vehicle will come with a map of its delivery route.

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In fact, we've spent billions of dollars doing just that. Building everything from the most advanced customs clearance network to the first nationwide cellular tracking system. Technology not for the sake of technology, but for the sake of serving our customers better.

Suffice it to say, we've made a lot of changes to our company. We just figured it was time to make one to our vehicles. **The package delivery company more companies count on.SM**



Up Front

NEW WORLD ORDER

INVASION OF THE RED-ARMY LOOK

Now this is getting humiliating. The fearsome Russian Defense Ministry is so broke that it's selling Red Army surplus to acquisitive Western trendies: Uniforms, including coats and hats; map bags; and Joe Stalin medals.

The Sharper Image catalog recently began selling officers' greatcoats—eight pounds of gray felt for a Siberian-style cold snap—for \$399. The supplier: C.W.O. (for Cold War's Over) in Perryopolis, Pa., whose chairwoman, Kate McKeown, has a distribution deal with



KGB BADGE: Genuine?

Moscow. Now, C.W.O. is negotiating a possible deal with QVC Network. The company also has a stash of blank KGB ID badges—authenticity not guaranteed. As an enticement, C.W.O. sent one to QVC CEO Barry Diller.

This isn't just about making a buck, McKeown says: "When you buy this stuff, you personally help dismantle the Soviet war machine." One-tenth of the profits will go to teach entrepreneurship in Russia. C.W.O.'s adviser, Stanley Marcus, the 88-year-old chairman emeritus of Neiman Marcus, says he expects

the greatcoats to be particularly popular: "They have a lot of macho to them—and a lot of wool." And Lenin thought that capitalists would end up selling rope for their own nooses. *Peter Coy*

SHOW BIZ

IT'S A HUMONGOUS WORLD, AFTER ALL

It's not quite a Chinese Disneyland, but it's the closest thing yet. Hong Kong-based Wo Yau Properties is building the first-ever theme park in China. And it's not messing around. The company plans to build landmarks from around the globe—all to scale—on 232 square miles just north of the southern boomtown

The natural landscape will also be molded to reflect natural wonders of the world, including an Amazon jungle, Dutch tulip gardens, and, yes, even Mt. Everest (the



only attraction not built to size). You want Hollywood? How about a replica of Devils Tower National Monument, the meeting place in *Close Encounters of the Third Kind*? The company estimates it will take \$60 million and 2,000 to 3,000 workers to build the park, which should be finished in two years. Note: Foreigners will pay \$13 to get in, less than half the price charged locals. *Joyce Barnathan*

of Guangzhou. Among the sights: Egypt's Sphinx, a French castle, the Acropolis of Athens, Stonehenge, and the Paris Opera House. Representing America: A generic Las Vegas casino—but with no gambling allowed. Gaming is against the law in China. So there will be one-armed bandits, winner takes naught.

FOOTNOTES

Deloitte & Touche Day-spending outlook: Northeast, up 18%; Midwest, down 14%; South, up 23%; West, down 14%

DRAWN AND QUARTERED



MORALE SQUAD

THE ROAR OF THE XEROX, THE SMELL OF THE FAX

So you think it pays to make a fool of yourself, huh? Big companies are hiring a New York comedy troupe to gather everybody from the chief executive to the mail-room guy into one room and have them work up wacky improvisational routines. Like putting three people in a three-headed suit and making them free-associate the adventures of a rubber duck. Like handing them a common household item and telling them to pitch it as a new product—selling a Frisbee as an infant's sled, say.

New York-based Chicago City Limits, an offshoot of the famed Second City comedy troupe, figures that using teamwork to put together shticks on the spot makes for

better internal relations in company—as well as quicker-witted salespeople. Session with drugmaker Apoteco wrote Marketing Director Michael Guidotti in a letter were a "valuable assistance in boosting sales."

Chicago City Limits, which started marketing these high jinks in 1989, has worked for 60 companies to date, includ-



YUCKS INC.: The folks in the three-person suit

ing such button-down establishments as GE Capital and General Foods. After one recent session at Computervision, the company's Human Resources Director, Carl Di-asked: "Should I quit my day job?" □

THE BIG PICTURE

CORNER-OFFICE SHUFFLE

Senior executives are a restless lot. One survey says a total of 76% of them are searching for a new job while still employed. And 58% have had at least one job offer within the last year.

DATA: PAUL RAY BERNDTSON, CORNELL CENTER FOR ADVANCED HUMAN RESOURCE STUDIES

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Yet with the exception of price, the C-Class is everything you'd expect from a Mercedes. The fact is, when we built the C-Class, you might say we borrowed shameless-

ly from some other cars. Our own.

You see, the new C-Class embodies the attributes and technology which define Mercedes-Benz cars. There's a Supplemental Restraint System that combines driver and passenger-side air bags with automatic seat belt tensioners and padded knee bolsters; four wheel antilock disc brakes and our unique five-link rear suspension.

Every C-Class car comes with standard luxuries that are anything but standard for cars at this price. There's automatic climate control, a 10-way electri-

cally adjustable driver's seat, zebrawood trim and an 8-speaker sound system. And don't be fooled by its price, the C-Class is not a small Mercedes. There's enough headroom for five 6'2" adults. (For anyone taller, there's always the standard sunroof.)

Following our leader, the top-of-the-line S-Class, the C-Class has double wishbone front suspension and air conditioning free of ozone-



*MSRP for a C220 excludes \$475 transportation charge, all taxes, title/documentary fees, registration, tags, dealer prep charges, insurance, optional equipment, certificate of compliance or non-compliance, and finance charges. Prices may vary by dealer. C220 shown at MSRP of \$30,320. Includes rear head restraints. Base MSRP for a C280 is \$34,100. Air bags are supplemental restraints. Please always wear your seat belt. ©1993 Mercedes-Benz of North America, Inc., Montvale, N.J., Member of the Daimler-Benz Group.

pleting CFCs and state-of-the-art manufacturing methods that include meticulously checking tolerances of each and every body shell. And though the C-Class shares some styling cues with the S-Class, its sleek, aerodynamic design is unquestionably unique. The C-Class has also set some new standards for Mercedes-Benz. These cars, for instance, undergo a battery of computer simulations

and a crash test program beyond that of any Mercedes ever before.

Both the C220 with its 2.2-liter, 4-cylinder engine and the C280 with a 2.8-liter 6-cylinder, use advanced technology to produce exceptional torque not just at high rpm, but at low and mid rpm where you need it most. And a sophisticated computer system continuously coordinates functions like air/fuel mixture and

valve timing improving performance, fuel economy and reducing emissions.

Of course, for Mercedes-Benz to build a car this incredible is pretty much to be expected. But to do it for \$29,900,* now that's a feat of engineering.

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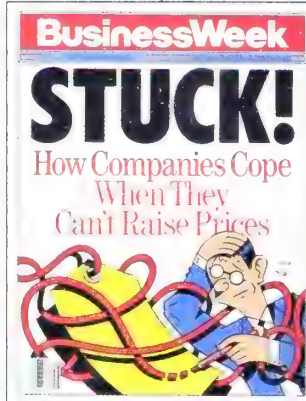
CAN COMPANIES GET UNSTUCK?

Your story, "Stuck!: How companies cope when they can't raise prices" (Cover Story, Nov. 15), struck home. As a major international company, it is with rare exception that pricing and costs are not our major focus.

Your prescription to abandon discounts, coupled with process and product reengineering, hits the mark. Both provide symptomatic relief for the ailment of "compressing margins." However, to cure the disease, entire industries must retool their balance sheets.

Continuous improvement and an unrelenting drive to reduce costs throughout a company's supply and delivery chain must become the order of the day. Today's customer demands—and deserves—consistent product and the best price we have to offer. Companies that jointly attack the problem will survive, and margins will stay intact. Companies that don't will make for good case studies on how not to succeed.

Steven C. Jacobs
Senior Vice-President
Americas Services
Holiday Inn Worldwide
Atlanta



The article was amusing, but the tables did not support your thesis. Of the 10 industry categories depicted, only "infant and toddler clothes" was experiencing lower prices. The other industries—all more significant—were continuing to raise prices, albeit at a slower rate than in the past. I guess an article titled "How companies cope when they can't raise prices as much as they'd like" doesn't have the same ring.

Bill Fridl
San Bruno, Calif.

Contrary to a statement in your story, Boeing Co. has not said it is freezing the prices of our commercial jetliners for the next five years.

Our goal in the Commercial Airplane

Group is to reduce the cost of building our jetliners over the next five-year period. As those reductions are achieved, we expect to share some of the gain with our customers, some with our shareholders, and to retain some for product development and productivity investments.

Ron Woodard
Executive Vice-President
Boeing Commercial Airplane Group
Seattle

Your article did a fine job describing the competitive pressures facing companies worldwide. However, in prescribing strategies for coping with declining margins and eroding prices, the article clearly understated the potential role of information technology.

Modern information technology can do much more than just track customer preferences and target prices. It enables firms to restructure their entire cost base. I am familiar with many cases where information technology has been successfully used to reduce organizational complexity and improve profitability through business reengineering, yield management, just-in-time competition, or other innovations.

Senior managers who do not make information technology an integral part of their business strategy will find the future seriously threatened by competitors who do.

Jaak Juriso
Assistant Professor
Information Systems
Graduate School
Business Administration
Fordham University
New York

Letting consumers have the final decision on the real value of the goods companies have to sell is part of the past. The real decision for setting prices no longer rests with the consumer but with a store's buyers.

For many companies, it is the business

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Mitch Harris, Human Resources Manager Resins, Akzo America:

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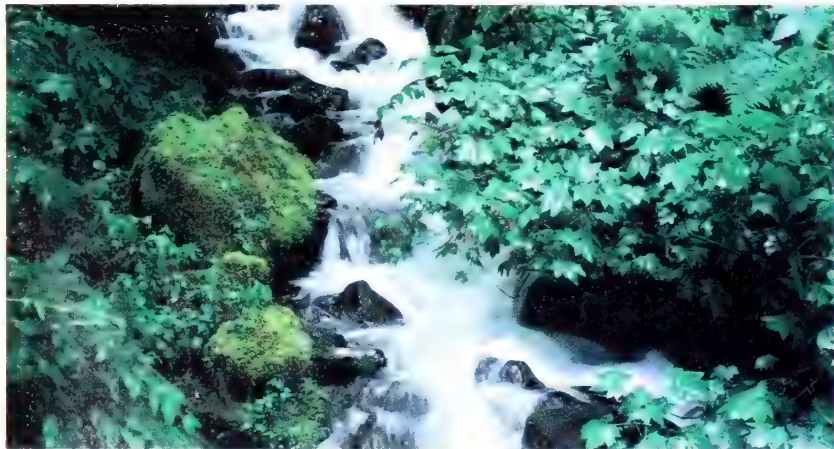


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Readers Report

CORRECTIONS & CLARIFICATIONS

"The 'glass ceiling': A barrier to the boardroom, too" (Top of the News, Nov. 22) said a survey by Catalyst listed Digital Equipment Corp. as not having any women on its board. Since that survey was completed, the company has named Kathleen F. Feldstein, president of Economic Studies Inc., as a director.

"High-tech startups to watch," a table in the Finance section of the Enterprise bonus issue, mistakenly included Docucon Inc. among the list of privately held companies. Docucon is listed on the NASDAQ exchange under the symbol DOCU.

In "The profit pace speeds up sharply" (Corporate Scoreboard, Nov. 15), net income for Molex Inc. in the nine months ended in September should be \$61.2 million, a 12% increase from a year earlier.

ers at hypermarket chains who, in the quest for better conditions than the competitors, started a price war among manufacturers and retail giants.

Negotiating with Carrefour, Promodès, or the like is a decisive step, an one that has driven leading manufacturers to a spiral of losses in profitability and to drastic restructurings. The price of products as diverse as milk, fruit juices, detergents, bathing gels, toothpaste, beer, sodas, and pet foods have been reduced significantly in recent years and the consumer has had very little to do with it.

The concentration of retail giants in Europe will maintain prices of leading brands at record lows. In the end, the consumer will benefit, and some analysts will mistake this trend, attributing these new prices to consumers and not to the real policymakers: the power of the retail trade.

Diego Montesinos
Trade Marketing Manager
CILESA SME Group
Madrid

You and Intel Corp. seem to have invented a new term called "value added" in establishing pricing structure. Why not stick to product differentiation? Your article, for the most part, discusses commodity products, where price and availability differentiate one vendor from the other, with or without disinflation.

Vendors who can truly differentiate their noncommodity products are in a hurry to reduce prices, since for the

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M. Russ Adamian
Bridgewater, N. J.

A HIGH-TECH SERMON FOR THE SERVICE SECTOR

Regarding "Health care has a bad case of 'cost disease'" (Economic Viewpoint, Nov. 15), modern technology may not be able to improve the productivity of all areas of the service industry, but many can benefit from it. [William J.] Baumol's [fixed productivity of a] string quartet is a good example. In 1791, only a couple of hundred people at most could hear a performance. Today, a single performance can be recorded and broadcast to millions of people.

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Eventually, more areas of the service sector will figure out how to use new technology to improve their productivity and lower prices.

Mark Warda
President
Sphinx International Inc.
Clearwater, Fla.

THE BAY STATE HAS ALREADY TAKEN THE HEALTH-CARE PLUNGE

In "Reality Check" (Up Front, Nov. 15), you reported that as many as 15% of small employers [nationwide] are denied group health coverage. While this is unfortunate and wrong, it isn't like that in every state.

Massachusetts law requires that all small employers (25 or fewer employees, including sole proprietors) are provided "guaranteed issue" of group health insurance by any insurer of their choice doing business in this state. Preexisting-conditions limitations are virtually eliminated, and no insurer may impose "condition riders."

The law is phasing in a rating plan that will ultimately result in a "community rating" structure. Coverage is guaranteed renewable, regardless of claim history, and all renewal-rate increases must conform to strict regulatory requirements.

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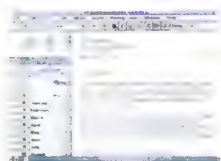


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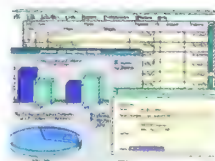


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Books

THE DOWNING STREET YEARS

By Margaret Thatcher
Harper Collins • 914pp • \$30

WHEN MAGGIE WAS NO. 1 AT NO. 10

It's May, 1983, and Margaret Thatcher is in Edinburgh, campaigning for reelection. Just back from an economic summit, the British Prime Minister realizes that a speech reporting on it, just hours away, needs much more work. So, as she relates in *The Downing Street Years*, she and some staff members spend the early evening "crawling around the floor of my room at the Caldonian Hotel, sticking together bits of text with sellotape."

When most people think of the Iron Lady, they hardly picture her on her hands and knees. But given her proclivity for perfectionism and capacity for work, it's not out of character. The longest-serving British Prime Minister of this century is widely acknowledged to be brilliant, intense, and rigid. The first volume of her memoirs also reveals her

to be usually indomitable, sometimes earthy, and, on occasion, amusing.

Unfortunately, readers must plow through many, many pages to find the revelatory moments. Even history buffs will find the book tough going. Thatcher too often merely recites her day-by-day activities. Unlike authors who invent dialogue for occasions they never attended, she uses none—even from events at which she was present—and she rarely reports others' positions. She can skewer opponents along with the best, but, with a few exceptions, she doesn't—and she skimps on positive appraisals, too. Least forgivable, she stints on displaying her formidable analytic powers. Instead of arguing her geopolitical views, she offers generally mundane, matter-of-fact observations. She commits the sin one least expects: She's bland.

Yet inside this huge tome is a book perhaps half as big, that's worth reading. Thatcher, Britain's most important political figure since Winston Churchill, shows herself to be what she claims to be: a conviction politician—as opposed to, say, a consensus politician. At one Commonwealth conference, she asked Guyana's President what he meant by consensus—"a word of which I had heard all too much"—and he replied that "it is something you have if you cannot get agreement." Consensus, she lectures, "the process of abandoning all beliefs, principles, values and policies in search of something in which no one believes but to which no one objects."

Except, of course, Thatcher. During 11½ years in office, once she decided what was right—and to her there was always right and wrong—she was unstoppable. This trait explains her success and her downfall. At first, Britain wanted a revolutionary (a sobriquet she revels in). It wanted tax and labor reform, privatization, changes in housing, education, and health policy. But in time Thatcher—who, as backers liked to say, "leads from the front"—got too far ahead of her constituents, particularly by proposing a poll tax. It matters not that



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er refusal to submerge
tain in a supranational
urope—the other issue
at brought her down—
as vindicated. Even
when her instincts were
rong, she could not
ray from conviction.

On matters of state,
e *Downing Street Years*
rovides only one revela-
on—that Thatcher and
ançois Mitterrand in
89 privately discussed
ys to slow Germany's
unification and prevent
dominance of Europe.
e French President
ntradicted those lean-
gs publicly, however,

ich leads Thatcher to blast "his ten-
cy to schizophrenia."

Thatcher also offers short, sharp ob-
vations of many other world leaders.
iscard d'Estaing "had the manners of
aristocrat, [but] he had the mind-set
a technocrat...[and] saw politics as
elite sport to be carried out for the
nefit of the people but not really with
ir participation." George Bush was
ways well-briefed" and "decent, hon-
, and patriotic," but as President, he
quired Thatcher's praise and defer-

Revelations are few
and far between, and
Thatcher commits the
sin least expected
from her: She's bland



Thatcher praises both—
though sometimes back-
handedly. "I had by now
come to share Nigel's
high opinion of himself,"
she writes on Lawson's
1983 appointment as
Chancellor of the Exche-
quer. She credits Howe,
a "tower of strength,"
with developing nearly
every step of her early
economic program.

Occasionally, Thatcher
describes her personal
likes (speech-writing,
verbal combat, comparisons
with de Gaulle) and dis-
likes (the media, satisfac-
tion with the status quo,

ence. Besides Ronald Reagan, whom she
praises for his leadership, views, and
charm, Thatcher saves her highest re-
gard for Helmut Schmidt, with his "wis-
dom, straightforwardness, and grasp of
international economics."

Thatcher serves up capsule descrip-
tions of British politicians, too. Her gen-
tle treatment of Sir Geoffrey Howe and
Nigel Lawson—the two senior, longtime
supporters who eventually turned on
her—cleverly makes them look more
treacherous. For much of the book,

underhandedness, innuendo). She throws
in a few homey touches—how she hid
papers and books when visitors came
to No. 10, how she stocked her freezer
with meals for staffers who worked late,
how she hired a teacher to improve her
pronunciation before delivering two par-
agraphs in French to the Canadian Par-
liament. And she doesn't hide the bitter-
ness she felt on being deposed.

The Downing Street Years shows
Thatcher as she is: a tough, strident,
pro-free-market, pro-British, pro-Ameri-

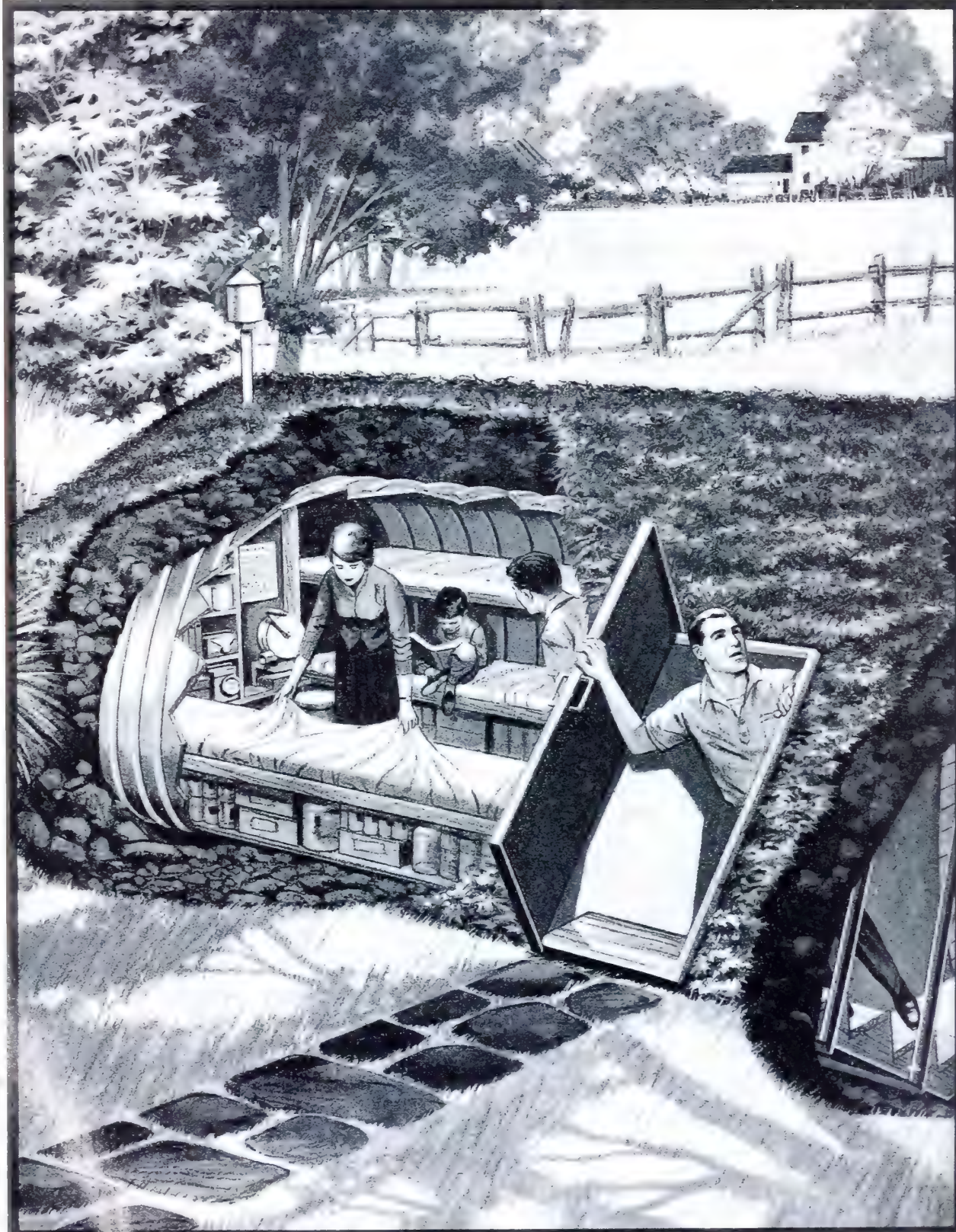


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Books

can, anticommunist woman who changed the course of British history. Readers who dislike her will find her even more trying here. Admirers will probably skip the book's tedious parts and end up liking her even better.

BY JUDITH H. DOBRZYNSKI

Senior Editor Dobrzynski reported for *BUSINESS WEEK* from London from 1979 to 1983.

BOOK BRIEFS

ATOMIC HARVEST: HANFORD AND THE LETHAL TOLL OF AMERICA'S NUCLEAR ARSENAL

By Michael D'Antonio

Crown • 304pp • \$22.50

NUCLEAR NIGHTMARE

From World War II through Ronald Reagan's drive to best the Evil Empire in the weapons race, the government's sprawling Hanford Nuclear Reservation along Washington's Columbia River chugged away. Under a shadow of secrecy, it turned out shipment after shipment of plutonium for an ever-expanding atomic arsenal. On now are the consequences becoming clear. In the name of peace and national security, researchers and bombmakers for nearly 40 years spewed nuclear wastes into the land and atmosphere. By 1988, when Hanford stopped producing plutonium, it had generated a shocking trail of human and animal illness and an environmental mess so severe the U.S. may never fully clean it up.

Michael D'Antonio's *Atomic Harvest* is an engrossing, novelistic account of Hanford's reluctant efforts to come to grips with its relationship with the bomb. In the former *Newsday* reporter's telling, Hanford became a place where officials and contractors lied about the activities, and workers and outside alike learned not to question what went on behind the barbed wire.

D'Antonio tells his tale through the eyes of Hanford residents and workers, including some made gravely ill by the radioactivity that emanated from the reservation and others who fought to unearth the scandal. All share a sense of disbelief about what happened.

D'Antonio draws parallels with Chernobyl, whose ill-fated reactor resembles a Hanford plant. Ukrainians, too, learned what can happen when national security and secrecy rule the day. Maybe a future book will discuss the fallout—literally—from the arms programs of Russia, China, France, Britain, and others. D'Antonio has provided a good start, as well as a road map for where a daunting environmental cleanup must begin.

BY WILLIAM GLASGOW

WHAT JAPAN NEEDS TO DO S BUY SOME PROSPERITY

RUDI DORNBUSCH



s economy is
ntraveling at a rapid
ace, putting Japan
dire need of a
old fiscal stimulus
rogram. With its
eep pockets, it can
fford a big tax cut
o boost consumption
nd cut its trade
nbalance

After two years of increasing strain, Japan's economy is on the rocks. For the first time in memory, output has dropped two quarters in a row. Confidence has never been lower. Banks are bankrupt, companies are breaking lifetime job commitments, retrenchment is everywhere. Deflation is under way; the International Monetary Fund estimates that Japan's gross domestic product will fall short of projections for fiscal '93 by 5%.

Criticism of the government's policies, unprecedented in this consensus society, is now common, as is the call for a bold program of fiscal stimulus to head off collapse. Japan needs a major fiscal move far beyond what is on the drawing board today.

Japan is suffering from four interacting troubles:

- In the aftermath of stock- and land-price collapse, corporations and banks have wrecked their balance sheets. Banks cannot lend as they rebuild their capital positions; companies cannot invest because their net worth is sharply down; households do not buy durables because people are so much poorer.

- The decline in spending has brought on a recession. Companies have excess capacity and far too much labor on the payroll. They are cutting costs and commitments: Investment in machinery has plunged, and pruning of employment is expected to reach 1.5 million.

- The stronger yen, driven by a record trade surplus, is cutting into export opportunities at the very time breathing room on that front could offset the declining home economy.

- The confidence of households and business has plunged, translating into less investment, lowered consumer spending, softened bank lending, and lower asset prices. Political troubles distract the government's attention from economic priorities. The public, aware of this fact, loses even more confidence.

Japan has three options. The first—do nothing—was the approach of the past two years and has no credibility.

The second option is to talk down the yen from the current level of 105 to the dollar to a range of 110 to 115. Since it was talked up over the past year by the U.S. Treasury, why not talk it back down? This would provide immediate export relief for Japanese companies. Devaluing the yen to maintain sales and profits is attractive to Japan but understandably unacceptable to the U.S. (and to Europe, which hides behind the Treasury's skirts). Everybody has trouble with jobs and profits, the West will argue. Nobody should be allowed to export their job problems with mas-

sive trade surpluses as a result of undervalued currencies. A yen depreciation should most decidedly not be part of the script. A major cut in the Japanese external surplus, from 3% at present, remains the U.S. target.

The third option, fiercely resisted by the Finance Ministry, is a big tax cut à la Reagan. There have been a few fiscal packages in the past year, but they were too little and too late to reverse the slide. Until now, the ministry has resisted all proposals to get ahead of the curve and actively drive prosperity with a bold and massive stimulus. It is clear that it is obsessed with revenues. Anticipating the aging of Japan in the 21st century and the consequent need for fiscal strength, the ministry cites the deficit-ridden U.S. economy as an example of addiction to lax public finance beyond cure.

Under the pressure of events, the ministry is now caving in. An emergency fiscal program is on the table providing for tax cuts next year. But there's some small print that provides for new taxes two years down the road. In line with the ministry's fixation on revenues, consumption taxes will double by 1995 to recoup the money lost by the tax cut. In fact, the delayed tax increase more than makes up for the contemplated largess. Economists are rightly skeptical whether short-lived pump priming will have much effect at all. The Reagan tax cuts gave the U.S. a decade of sustained growth; Tokyo's tax cuts may not even yield an extra 2% growth—too little to trim the surpluses, far too little to restore balance sheets and confidence.

DIG DEEP. Unlike any other industrialized country, Japan is in an ideal situation to buy itself some prosperity. Even in this recession, the budget is balanced, and there is no public debt to speak of. Surpluses such as Japan enjoys today are there to be used when emergencies arise. What else are they good for? Tokyo's enviable public-finance position should be used boldly to buy prosperity. Germany used its once-strong public finance to buy near-instant conversion of the East. True, there are deficits now, but surely that is better than not remedying the legacy of communism in eastern Germany.

Similarly, Japan should dig into its deep pockets to finance tax cuts on an ambitious scale. Doubling the proposed program might be a start—say a 12 trillion-yen tax cut and a five-year moratorium on tax hikes. That strategy would add very little to the public debt but would drastically change the outlook for prosperity and for Japan's good trade relations with the rest of the world. Tokyo needs to deliver on all those summit promises of strong growth in domestic demand.

DI DORNBUSCH IS PROFESSOR OF
NOMICS AT MASSACHUSETTS
STITUTE OF TECHNOLOGY

Economic Trends

BY GENE KORETZ

SMALL TOWNS, FRESH AIR—AND LOTS OF POOR PEOPLE

To many Americans, poverty is mainly a big-city problem associated with the welfare dependency, family breakdown, street violence, and drug use that plague the nation's inner cities. Yet as a recent report by a task force of the Rural Sociological Society observes, persistent poverty is as great a problem in nonurban areas as in cities—and by some measures, it is even more severe.

Although rural areas now contain less than a fourth of the population, they account for some 27% of the poor. As of 1990, their poverty rate of 16.3% was almost double that of suburban areas and not far below the 19% of central cities, which contain a much greater per-

In some ways, the plight of the rural poor seems more intractable than that of their urban cousins. They are more likely to be poor over long periods of time. And they are less likely to be served by antipoverty programs, such as preschool for poor children.

But in other ways, the rural poor may be potentially more responsive to steps to improve their lot. For one thing, fewer of them behave in ways that social observers associate with an entrenched "culture of poverty." A lower percentage are dependent on welfare, for example, and more of them represent intact married-couple families (44% in 1990, vs. 27% in inner cities). Perhaps most important, nearly two-thirds of the rural poor have at least one family member who works, compared with 54% in urban areas.

To the experts, such differences suggest that encouraging people to move to areas that appear to offer more employment opportunities may not always be the optimal strategy to alleviate rural poverty. Regional development programs promoting small-scale manufacturing, for example, could capitalize on the strengths of rural society while lifting rural residents out of poverty.

U.S. MANUFACTURERS UP THEIR STAKES IN EMERGING MARKETS

American companies are widening their investment sites overseas. Ernst & Young reports that 709 foreign manufacturing projects were announced by U.S. corporations last year, an 8% increase over 1991. While Europe dominated the list, with 53% of the projects, and Britain nudged Canada out for first place, the most noteworthy change was accelerated activity in markets newly opened to Western business.

China posted the biggest increases—39 projects, compared with 15 in 1991. Czechoslovakia's tally also rose, from 5 to 15. (The Czech Republic and Slovakia did not split apart until 1993.) Other countries attracting increased investment included Chile, India, Israel, Romania, Malaysia, Singapore, South Africa, and Venezuela. By contrast, announced investment projects in Mexico dropped from 56 to 32, perhaps because of apprehension over the pending vote on the North American Free Trade Agreement.

In sum, according to Ernst & Young's tally, some 355 U.S. companies initiated or expanded manufacturing operations in 58 foreign countries in 1992. Although acquisitions were the most popular growth option, particularly in Western

Europe and Canada, joint ventures predominated in Asia and Eastern Europe, where local partners help bridge economic and cultural differences.

HEART DISEASE: HOW AMERICA'S PROGRESS STACKS UP

It's tempting to attribute some of the U.S. advance on the health front to its medical system and the technological progress it has fostered. Between 1980 and 1990, for example, according to Metropolitan Life Insurance Co.'s current *Statistical Bulletin*, age-adjusted death rates from circulatory disease among Americans aged 35 to 74 fell by 29% for men and 25% for women.

Yet as Met Life's statisticians note, comparable improvements were chalked up by virtually all highly industrialized countries, all of which except the U.S. have national health systems. America's standing in the rankings (around 100) has hardly changed. Indeed, the data indicate that the most progress was made by Canada, which slashed its death rates for both men and women by about 39%. In fact, Canada's mortality rate from circulatory ailments in 1990 was more than 20% below those of white Americans (whose rates were at least 30% lower than nonwhites).

Is this an argument for Canada's single-payer health system? Hardly. But it does underscore the difficulty of evaluating systems by looking at results in a single country.

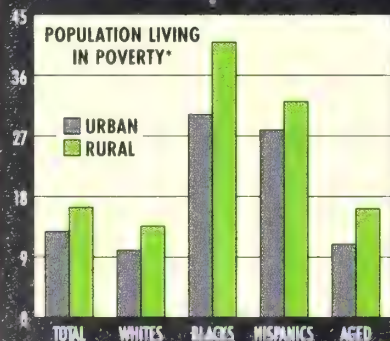
IS SOME OF THE FIZZ GOING OUT OF CAPITAL SPENDING?

With production of business equipment scoring a cumulative advance of 2.7% in September and October, the capital-spending boom seems to be right on track. But other statisticians raise a warning flag.

According to the latest gross domestic product data, growth of real outlays on producers' durable equipment slowed sharply, from a 19.8% annual clip in the second quarter to 9% in the third. At the same time, the book-bill ratio for semiconductors eased in October, suggesting a slackening of demand in the key spending sector.

One reason the pace may be starting to slow: Some companies are finding they can no longer finance their spending out of cash flow and are unwilling to take on heavy debt.

POVERTY'S GRIMMER FACE IN RURAL AMERICA



*FOR 1990. URBAN INCLUDES BOTH SUBURBS AND CENTRAL CITIES. RURAL DEFINED AS NONMETROPOLITAN AREAS. DATA: RURAL SOCIOLOGICAL SOCIETY'S TASK FORCE ON PERSISTENT RURAL POVERTY.

centage of poor, female-headed families. Indeed, among subgroups such as married-couple families, people living alone or with unrelated persons, blacks, and the aged, rural poverty is not only more prevalent than in urban areas (which include both cities and suburbs) but also more prevalent than in central cities.

The economy has not been kind to rural America in the past decade. In the early postwar period, job losses caused by modernization of such primary industries as agriculture, forestry, and mining spurred many workers to seek work in urban areas. Although conditions improved in the late 1960s and early 1970s as light manufacturing and service industries moved out of the cities, rural economies were battered again in the '80s by the problems besetting mining and agriculture and a heavy loss of manufacturing jobs.

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Telecommunications technology is changing rapidly. Almost daily, new breakthroughs – in network switching, fiber-optic transmission, wireless communications, and information highways – redefine how we communicate.

Before the end of this decade, advanced digital networks will become commonplace across North America. Both businesses and households will have access to interactive multimedia communications – voice, data, and video – on demand.

Today Fujitsu is involved with communications companies in helping make the delivery of commercial multimedia services across public and private networks a reality for customers.

In doing so, Fujitsu draws on a quarter century of commitment to North American public-access telecommunications providers. Now it is working closely with BellSouth,

GTE, and Carolina Telephone to install the first U.S. state-wide information highway in North Carolina.

The North Carolina Information Highway

Simultaneously transmitting data, graphic images, video, and voice, the North Carolina Information Highway will have an enormous impact on the state's economy, offering a new generation of high-value, information-age jobs. Soon, access to new services will be available through the public telephone network.

When the system becomes operational in 1994, rural health care workers will be able to consult medical center specialists, discussing patient files in real-time, saving money, time, and ultimately, lives. Students at different schools and universities across the state will be able to share the same courses, holding down education costs, while enriching the curriculum.

"FUJITSU IS EXACTLY
THE TYPE OF QUALITY
COMPANY WE ARE
PROUD TO HAVE IN
NORTH CAROLINA."

Governor James B. Hunt, Jr.,
North Carolina

Thanks to Fujitsu switching technology, the North Carolina Information Highway will allow medical specialists in different locations to simultaneously review patient files in real-time.





At Cincinnati Bell, Fujitsu installed the world's first self-healing fiber-optic ring network guaranteeing customers uninterrupted service.

Fujitsu's FETEX-150® All-Bandwidth™ Switching System will help make this possible. Fujitsu was the first to install a central-office broadband switching system in the U.S. deploying asynchronous transfer mode (ATM) technology. Capable of handling everything from narrow-band voice to broadband video, FETEX-150 switches will form the intersections of the North Carolina Information Highway.

Fujitsu's switching breakthrough is not limited to the North Carolina project. NYNEX has selected Fujitsu as a pivotal technology provider for extensive trials in Massachusetts. These trials mark a major step in the evolution of multimedia communications from a dedicated service available to only a few customers, into a major new market with millions of subscribers.

Extending The Advantages of Fiber Optics
Fujitsu is also a leader in fiber optic transmission systems, which are the vital links to the future world of interactive communications. Fujitsu pioneered synchronous optical network (SONET) technology in North America and

was the first to install SONET multiplexers with the Regional Bell Operating Companies (RBOCs) and Competitive Access Providers.

Based on a worldwide standard, Fujitsu's SONET products are helping communications companies extend the benefits of fiber optics beyond businesses into the home. Consumers will soon be able to shop and handle their finances at home – even select the movie they want to watch – all through interactive television.

Guaranteed Survivable Service

Reliability is always a fundamental priority in telecommunications. Again Fujitsu is leading the way, having installed SONET Path Switched Rings with six of the seven RBOCs. This technology guarantees service that can survive natural and man-made disasters.

Thanks to Fujitsu's ring topology, each call takes more than one route to its destination. Should a fault occur in one area, the signal still gets through without interruption. In addition, the entire ring can be monitored and controlled from a single location.

Switching Processing Power to the Desktop

Fujitsu's leadership in communication technologies extends from the public network to the desktop. Combining leading-edge technology and innovative business solutions with sophisticated public and private networking capabilities has made Fujitsu an industry leader in business communications. And the F9600™ platform PBX is now extending these capabilities beyond the traditional business telephone.

Working with leading North American companies and its customers, Fujitsu is providing the building blocks for creating virtual telephones that will allow users to meet all their communications needs from a single desktop computer. Easy-to-use screens will provide computer-based access to voice messages, customer lists, internal directories, and all standard business telephone functions at the click of a mouse.

Extending the F9600's capabilities to desktop

computers is just the beginning of Fujitsu's commitment to its customers. In the future, Fujitsu will continue to be at the forefront of business communications, from the desktop to the palmtop and beyond.

Wireless Communications Goes Beyond Voice

In wireless communications, the Fujitsu edge begins with its expertise in microelectronics. Fujitsu's ultra-compact handheld PCX™ cellular telephone is made possible by breakthroughs in gallium arsenide chip development.

Fujitsu also draws upon its computer and software strengths to bring the advantage of wireless communications—beyond voice—to data. Through a partnership program with many leading North American value-added resellers, Fujitsu provides customers with integrated mobile communications solutions that enhance productivity.

The world's smallest cellular flip-phone, the Fujitsu PCX™ helps you stay in touch wherever you roam.





Creating Products That Improve Productivity: The Fujitsu Edge in Computers and Software



In the '90s, companies need to work smarter to improve their competitiveness. For 25 years, Fujitsu has been committed to giving its North American customers an edge in productivity by providing innovative products that combine breakthrough technology with superior price performance.

The world's second largest computer maker, Fujitsu's broad product line ranges from the industry's smallest and lightest portable pen computers to some of the world's fastest supercomputers.

Mobile computing is one example of Fujitsu's contribution to North American business productivity. Fujitsu is a charter member of the MIT consortium on Total Data Quality Management, offering its expertise in portable computing.

Focusing on mobile computing and data integrity, the consortium aims to show how dramatic gains in efficiency and productivity can be achieved in corporations with mobile work forces.

In the real world of North American business, Fujitsu's strength in mobile computing and partnership with Philadelphia-based FASTECH – a

recognized leader in sales-force automation – are having an impact. ConAgra's Armour Swift-Eckrich division sales force uses Fujitsu's Poqet® PC Plus handheld computer integrated with FASTECH's Sales Information System™ to achieve improved efficiency and tracking of competitive products.

The Paperless Office

Containing the sea of paper that still drowns most North American businesses has long been a Fujitsu productivity target. Fujitsu's highly affordable family of document imaging scanners helps save businesses time and money by reducing paper – and paperwork – and dramatically improving document access. This represents a vital productivity gain for paper-intensive industries such as banking, law, insurance, and government.

Managing Meetings From Your PC

Awarded "Best of Show" at Groupware '93, Fujitsu's DeskTop Conferencing™ software enables workgroups to achieve higher quality

Fujitsu increases business productivity with advanced communication systems, document imaging scanners and printers, high-capacity removable data storage devices, and DeskTop Conferencing™ software.

results faster. It also helps significantly reduce travel expenses.

Using networked personal computers, up to eight people in geographically dispersed locations can interactively discuss and evaluate information on a conference. Reaching consensus is easy with WYSIWIS ("What You See Is What I See") and other conferencing tools, such as pointers and flipcharts.

DeskTop Conferencing runs with Microsoft Windows™, Novell Netware™, and Lotus Notes™, turning any software into groupware.

Another Fujitsu software breakthrough is NetWalker™. Designed and developed in the U.S., it is an easy-to-use UNIX-based platform-level network manager with an API (application programming interface) developer tool kit. NetWalker solves network administration problems and packages its fault management, system configuration and management, as well as performance monitoring tools in a user-friendly graphic interface.

Sulcus® Computer's Squirrel® Restaurant Management System uses Fujitsu's wireless, PadPlus RF™ pen computers to speed order taking and improve service.

Moving To Fully-Integrated Retail System

Retailing is another industry where better efficiency is imperative if margins are to be maintained. Here, Fujitsu's investment in ICL – Britain's largest computer company and a pioneer in open systems – is key.

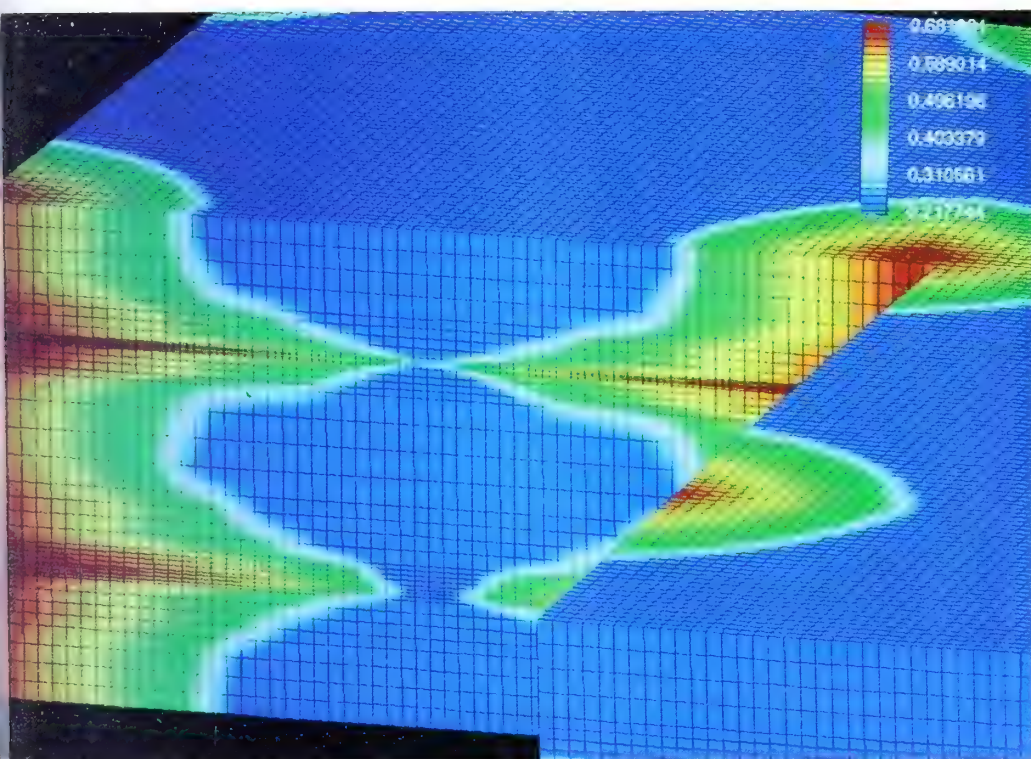
The new Dallas-based company leverages Fujitsu's and ICL's expertise in sophisticated point-of-sale systems. It works closely with retail industry customers like Kmart, Stop & Shop, Home Depot, and T.J. Maxx to develop comprehensive information management systems linking existing hardware and software from different vendors.

High-Performance Computing

At the top end of Fujitsu's computer line, the productivity issue takes on new dimensions. Fujitsu supercomputers, including the new VPP500 vector-parallel processor series, offer cost-effective routes to innovation and discovery.

Fujitsu supercomputers give customers in





Fujitsu supercomputers help petroleum engineers estimate recoverable oil reserves through 3-D petroleum reservoir simulation.

"FUJITSU'S
TECHNOLOGY
COMBINED WITH
FASTECH'S SOFTWARE,
GAVE US A FLEXIBLE
SOLUTION THAT
COULD SOLVE BOTH
OUR IMMEDIATE
AND FUTURE
BUSINESS NEEDS."

Rodger Bloch, Vice President,
Retail Merchandising,
Armour Swift-Eckrich

petroleum, chemical, and pharmaceutical industries an essential price-performance edge. Canadian chemists use a Fujitsu supercomputer at Alberta's High Performance Computing Center to improve Canada's international competitiveness in seismic processing and to enable world-class university research in disciplines such as molecular chemistry, geophysics, pharmacology, medicine, and astrophysics.

Storage Gains Reliability

With the explosion of imaging system applications and client/server computer networks, data storage takes on increased importance. Storage devices are getting smaller while capacity doubles annually.

At its Colorado R&D center and Oregon

factory, Fujitsu leads in the development and manufacturing of quality, reliable tape and removable optical data-storage devices for worldwide export. It has also led the way in developing disk arrays for fault-tolerant storage.

Fujitsu's customers are on the leading edge in optical storage. The new compact, transportable DynaMO™ 3.5-inch rewritable optical disk-drive subsystem gives users enormous 128 megabyte capacity. Optical storage provides a cost-effective solution for graphic arts firms, as well as desktop and multimedia publishers who require flexible, high-capacity storage.

Fujitsu has the resources not only to take the lead in developing new technologies, but also to create products that work for North American business.

Partnering Technology: Fujitsu's Breakthrough Role in Microelectronics

"FUJITSU HAS PLAYED

A PIVOTAL ROLE IN

SUN'S SUCCESS."

Scott G. McNealy, CEO,
Sun Microsystems

Nowhere, perhaps, is Fujitsu's role as a partner to North American business more apparent than in the microelectronics and components industries. Here, Fujitsu supplies the chips, the keyboards, flat panel displays, and other high-performance parts that allow North American companies to make internationally competitive products.

Fujitsu's enormous expertise in microelectronics enables the company to tailor systems-level solutions for its customers. Fujitsu's approach is to establish strategic alliances with market leaders in today's and tomorrow's most important industries. Fujitsu brings not only its technology to these alliances, but also its global capability which can support its partners around the world.

Sun SPARCs

One of the most wide-ranging Fujitsu alliances is with Sun Microsystems. Fujitsu markets

various Sun products in Japan and Canada. It also supplies Sun with vital computer peripherals, semiconductors, and other components.

Most importantly, Fujitsu worked with Sun to develop the Scalable Processor ARCHitecture (SPARC®) reduced instruction set computer (RISC) processor family. These chips are more than just the heart of Sun workstations. SPARC was the technological breakthrough that brought mainframe power to the desktop and accelerated the growth of the workstation market.

Taking A Lead In Gallium Arsenide

Fujitsu's partnering philosophy has also paid off for Convex Computer. Fujitsu supplies high-speed, low-power consumption gallium arsenide semiconductors that help give Convex's high-performance computers their market edge.

Fujitsu also leads in lightwave and microwave products using gallium arsenide technology. Its radio frequency module for



Sun Microsystems CEO Scott McNealy and Fujitsu Microelectronics President Ken Katashiba discuss their companies' collaboration on the next generation of "open" SPARC technology.

handheld cellular telephones has the leading share of the world market. Its amplitude modulated (AM) laser module can accommodate as many as 80 cable TV channels simultaneously.

Industry Workhorse Memory Chips

Fujitsu was one of the first to develop the 16-megabit dynamic random access memory (DRAM), the most powerful memory device on the market. Fujitsu is already shipping samples of 64-megabit DRAMs.

Fujitsu's factory in Gresham, Oregon produces four million 1-megabit DRAMs each month. By the end of 1993, part of the production capacity will be shifted to 4-megabit DRAMs. Representing a multimillion dollar investment, Gresham is an excellent example of Fujitsu's commitment to local manufacturing in a worldwide network.

World's Largest ASIC Producer

Fujitsu's strength in microelectronics also extends to the application specific integrated circuit (ASIC) marketplace. The world's largest producer of ASICs, Fujitsu is focusing on leading-edge chips with high gate counts to handle today's most complex applications.

Customer-Driven Approach

Strengthened by strong R&D engineering capabilities in San Jose, California, Fujitsu typically follows a customer-driven approach in developing its products. Fujitsu looks at a customer's problem or requirement and devises a solution to meet that need. Fujitsu seeks to build modular products with open architectures and open systems to protect its customers' products against obsolescence.

Fujitsu knows that the surest path to success is to grow along with its customers. Fujitsu is committed to supporting its customers' success with sales, service, quality manufacturing, and R&D, with shortened cycle times and expanded local services. After twenty-five years well spent, Fujitsu is committed to its customers and is doing business in North America for years to come.



Above: Fujitsu and Convex engineers work together on-site at the Texas-based company to develop gallium arsenide components for Convex's next generation computer.



Left: Fujitsu's design operation in San Jose, California provides U.S. customers with systems-level semiconductor solutions.





JAIMS: Fujitsu's Pioneering Contribution To Management Education

In 1972, Fujitsu established the Japan-America Institute of Management Science (JAIMS) in Hawaii as a private, non-profit institution for post-baccalaureate intercultural management education and executive development.

Since then, JAIMS has become a leader in management education, drawing students from North America, Europe, and Asia. Its curriculum features a Japan-focused Executive Master of Business Administration, a cooperative program with the College of Business Administration at the University of Hawaii. It is a full-time MBA program that balances the practical and theoretical requirements for successfully doing business with Japan within an international context.

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FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

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A BALL AND CHAIN SPELLED T-R-A-D-E

Quick. What's the biggest drag on the U.S. economy? No, it's not defense, real estate, or any other domestic sector. It's foreign trade—by a wide margin. In the past year and a half, the economy has grown at an annual rate of 2.9%. Excluding the widening trade gap, growth would have been 3.8%. The problem for the outlook: That drag is going to continue for some time.

The deterioration in the merchandise trade deficit continued in September. Exports fell short of imports by \$9.9 billion. The August gap was \$10 billion, a bit larger than the government had first reported. Exports did manage a 2.1% rise in September, to \$38.9 billion, but imports jumped 3.4%, to a record \$49.8 billion.

The September trade deficit was a bit worse than the Commerce Dept. had estimated when it figured third-quarter gross domestic product. Trade is likely to weigh against the revised GDP data, due on Dec. 1, but other sectors will probably show up stronger than first estimated, resulting in a slight upward revision to the 2.8% pace of real GDP originally reported.

Through September, the trade deficit in goods is 44% larger than in the same period last year. It's on track to reach \$120 billion in 1993, the largest since 1987 (chart). Because the U.S. runs a trade surplus in services, such as travel and tourism, the overall gap will be less. But while the service surplus has been little changed since early 1992, the goods deficit has ballooned.

IT LEAST SOUTH AMERICA IS IMPORTING

The main problem is the difference in growth rates between the U.S. and the rest of the world. Although U.S. growth is far from robust, most of Europe and Japan are mired in recession. As a result, exports of U.S. goods last quarter were no higher than they were at the end of 1992, while imports have surged. So far this year, the U.S. trade balance has worsened with nearly all major regions. In September, the balance with Mexico even slipped into deficit. However, for the time being, the U.S. still has a surplus with Mexico, and a 4% surplus is assured now that the North American Free Trade Agreement has passed Congress. NAFTA will stimulate Mexican growth, lifting demand for U.S. exports. On the U.S. side of the border, the near-term NAFTA

impact will be small. Mexico buys 9% of U.S. goods exports, but that's only 0.5% of U.S. GDP. A pickup in the pace of U.S. exports to Mexico from no growth this year to 10% in 1994 would be a flyspeck on GDP growth.

To be sure, the new twist in the 1990s is the emergence of trade with the developing nations—a trend that started even before the recessions in Europe and Japan cut into their purchases of U.S. goods. Although the U.S. still sells and buys more merchandise from the industrialized nations—56% of all exports and imports—trade with developing countries is growing much faster (chart).

Imports from developing countries are rising almost three times as fast as goods coming from the developed nations, especially Japan, Canada, Europe, and Australia. The gains have been big in labor-intensive goods, such as toys, footwear, and clothing, and in commodities, including oil, chemicals, and metals.

However, because these nations are growing so rapidly, their purchases of U.S. goods are also speeding up. The fevered pitch of export demand in some of these regions is in sharp contrast with the moribund economic states of Japan and most of Europe. For example, exports to the newly industrialized Asian nations were up 14.5% in the year ended in the third quarter, but exports to Japan had dropped 1.3%.

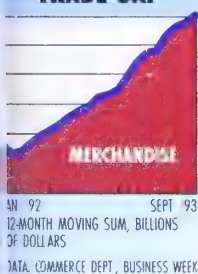
While demand from Latin America and East Asia remains a big plus for U.S. exports, growth there has just offset weaker demand from the industrialized countries. At the same time, recession-wracked foreign producers are targeting U.S. markets in an attempt to compensate for weakness at home. This trade mix is likely to persist for several more quarters.

MUCH OF THE TRADE PROBLEM IS IMPORTS

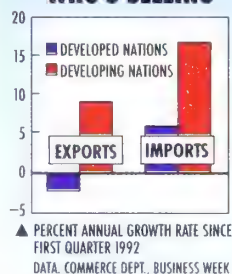
The different speeds of economies worldwide, though, is only one reason why the U.S. is having such a hard time correcting its trade imbalance. Increasingly, the trouble with trade is the trouble with imports.

The U.S. expansion has fanned widespread demand for foreign goods. But it's not just VCRs and other consumer items. The boom in capital spending, especially for computers and other high-tech office equipment, has generated its share of imports as well. All told, nearly 24% of all nonoil goods purchased in the U.S. in the third

THE WORSENING TRADE GAP



WHO'S BUYING, WHO'S SELLING



Business Outlook

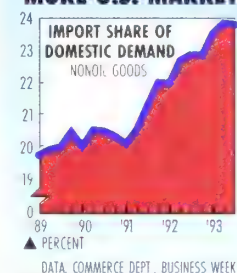
quarter were produced overseas (chart). This loss of market share is one factor weighing down the U.S. manufacturing sector.

Of course, the flow of imports would not be such a big problem if U.S. exports were rising as well. Unfortunately, that isn't the case. Because of the economic slumps hurting some major trading partners, U.S. exports in September were up only 3.2% from a year ago, while imports had increased by 8.2%.

BIG TRADE PARTNERS ARE MIRED IN SLUMPS

The divergence between exports and imports is short-circuiting the progress made in some trade sectors. One example is capital goods. Weak business investment in Europe and Japan has hurt foreign sales of U.S. heavy machinery and computer equipment. After soaring from 1990 to early 1992, U.S. exports of capital goods have risen 3.1% over the past year.

FOREIGN GOODS GRAB MORE U.S. MARKETS



The spending boom on business equipment at home, though, has caused imports of capital goods to jump by 11.6% from a year ago. As a result, the U.S. trade surplus, which hit a high of \$18.1 billion at the end of 1991, narrowed to just \$8.5 billion in the third quarter (chart). Because equipment investment in the U.S. is unlikely to let up any time soon, our trade surplus

in capital goods will continue to shrink.

Foreign companies have drummed up business in the U.S. by holding the line on prices. U.S. producer prices for capital equipment have risen 1.7% during the past year. That may not seem like much, but the makers of imported capital goods have actually cut prices by 0.6%.

So, will exports ever climb back to their double-digit growth pace of the late 1980s? The competitiveness of

U.S. manufacturers suggests it's possible—but only growth quickens among industrialized nations. Canada, Britain, and Australia are already in recovery, and turnarounds in Italy and France may not be far off. Japan and Germany, though, are still struggling in recession.

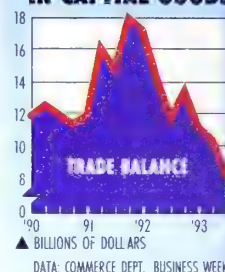
The collapse of the Japanese and German labor markets has been especially hard on U.S. exporters of consumer goods. In October, the German unemployment rate hit 8.8%, while 2.6% of Japanese workers were jobless in September. Both rates are at five-year highs.

In addition, expectations of recovery in Japan and Germany continue to be pushed further into the future. Many private economists are lowering their growth forecasts for Japan for both 1993 and 1994. And Germany's "five wise men," an independent council of economic advisers, recently projected stagnation in 1994, with a significant chance of a double-dip recession. For the U.S., that means exports to these countries may not pick up again until 1995.

Consequently, gains in exports next year are likely to come mostly from industrializing countries, whether they are on the Pacific Rim or in South America. To be sure, it will take many years before their purchases of U.S. goods equal the mammoth markets of Europe, Canada, and Japan. But in the near future, growing demand from Chile to China may be the most lucrative game in the trade sector.

However, when the industrialized economies finally kick in, the enhancements that U.S. manufacturers have made to productivity, cost reduction, and product quality are set to give U.S. factories an edge in the global marketplace. That, plus freer flow of goods and services, could give the economy a considerable lift.

LOSING THE EDGE IN CAPITAL GOODS



THE WEEK AHEAD

CONSTRUCTION SPENDING

Wednesday, Dec. 1, 8:30 a.m.

Construction outlays likely rose 1% in October, after a 0.8% gain in September, according to economists polled by McGraw-Hill Inc.'s MMS International.

GROSS DOMESTIC PRODUCT REVISION

Wednesday, Dec. 1, 8:30 a.m.

The Commerce Dept.'s revisions to the third-quarter economy will likely show that real GDP grew at a 2.9% annual rate, says the MMS survey. That's not much different from the 2.8% first reported, but second-quarter growth was only 1.9%. Aftertax corporate profits are expected to have risen 1.5% last quarter, as huge flood-related losses in the in-

surance industry offset gains elsewhere.

NAPM SURVEY

Wednesday, Dec. 1, 10 a.m.

The purchasers' index of the National Association of Purchasing Management likely stood at 54.5% in November, up from October's reading of 53.8%.

NEW SINGLE-FAMILY HOME SALES

Thursday, Dec. 2, 10 a.m.

New homes likely sold at a 700,000 annual rate in October, a good showing after September's strong 762,000 rate.

PERSONAL INCOME

Thursday, Dec. 2, 10 a.m.

Personal income probably increased 0.6% in October, and consumer spending ad-

vanced 0.8%. The consumer sector in October was much stronger than in September, when income was up 0.2% and spending rose 0.3%.

LEADING INDICATORS

Friday, Dec. 3, 8:30 a.m.

The index of leading indicators likely rose 0.6% in October, the sixth gain in a row. The index has been revised by Commerce to track the economy better.

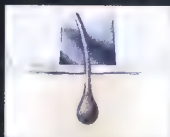
EMPLOYMENT

Friday, Dec. 3, 8:30 a.m.

Nonfarm payrolls probably increased 175,000 in November, about the same as in October, say MMS economists. The jobless rate is forecast to dip to 6.7% in November, from 6.8% in October.



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Wherever a President traveled during the dark days of the cold war, he was never more than a few steps away from a military aide who clutched the "football"—a briefcase containing the codes the Commander-in-Chief could use to launch a nuclear strike. As Bill Clinton hits the road these days, he conjures up a far less sinister image: that of a fast-talking salesperson, traveling the world with sample cases full of glittering American wares. Clinton is such an ardent booster of U.S. exports that he has been chided for acting less like a statesman than a rug merchant. The President's retort recently to workers at a Boeing factory: "I'm not ashamed that I've asked other countries to buy Boeing, and I'll do it again if given half a chance."

Clinton seems bent on creating a whole new Presidential role. Fancying himself a sort of CEO of USA Inc., the President has committed his Administration to the most aggressive export-promotion program in memory. "It's no longer enough just to protect our security interests around the world," says Commerce Secretary Ronald H. Brown. "We have to protect our commercial interests, too."

Clinton believes that only strong export markets can create the sort of high-skill, high-wage jobs that are at the heart of his economic strategy. That's why the President lobbied so fiercely for the North American Free Trade Agreement, then immediately hopped on a plane to host an unprecedented summit of Pacific Rim leaders in Seattle on Nov. 20. Back in Washington, he announced on Nov. 23 the lifting of remaining economic sanctions against South Africa, creating yet another opportunity for U.S. exporters.

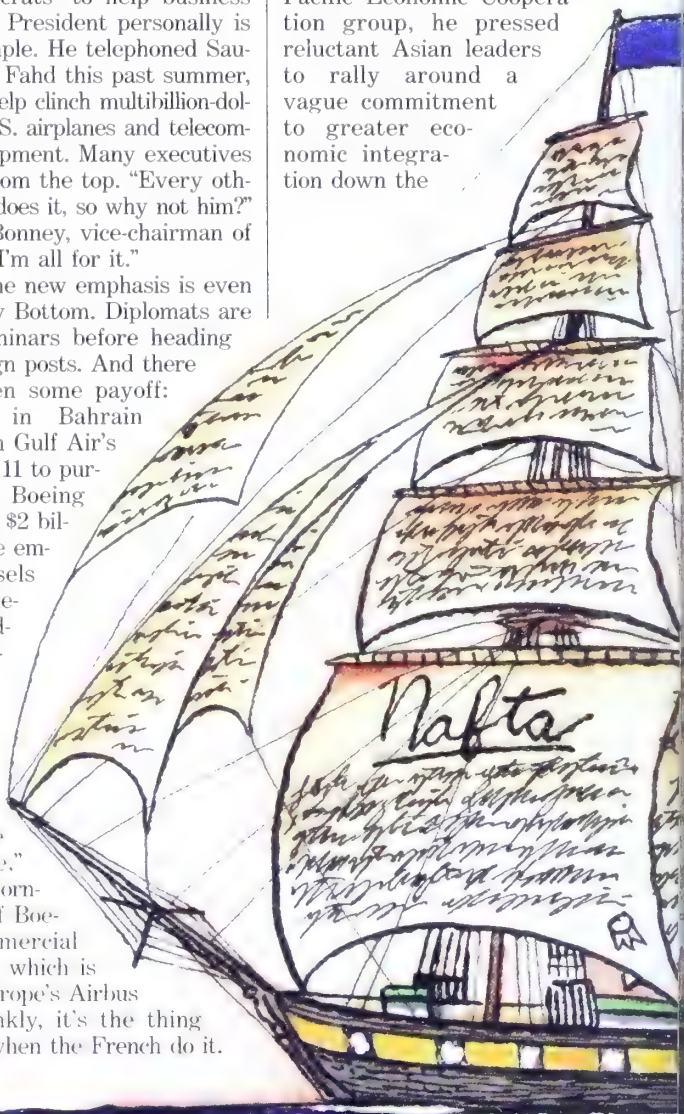
That's not all. Clinton is pushing hard

to conclude global trade talks by Dec. 15. He is moving to dismantle cold war export restrictions that hobble sales of high-tech equipment. And he is leaning hard on officials—from Cabinet officers to lowly bureaucrats—to help business sell abroad. The President personally is setting the example. He telephoned Saudi Arabia's King Fahd this past summer, for instance, to help clinch multibillion-dollar orders for U.S. airplanes and telecommunications equipment. Many executives love the boost from the top. "Every other head of state does it, so why not him?" says J. Dennis Bonney, vice-chairman of Chevron Corp. "I'm all for it."

GATT GAMBIT. The new emphasis is even evident at Foggy Bottom. Diplomats are taking sales seminars before heading off to their foreign posts. And there has already been some payoff: The embassy in Bahrain helped nail down Gulf Air's decision on Nov. 11 to purchase up to 12 Boeing 777s, a potential \$2 billion deal, and the embassy in Brussels aided Pacific Teleis Group in landing a \$300 million-a-year contract with Belgium's phone company. "The entire Administration appears to be more proactive," says Dean D. Thornton, president of Boeing Co.'s Commercial Airplane Group, which is battling with Europe's Airbus Industrie. "Frankly, it's the thing we bitch about when the French do it."

But as long as it's done tenderly, we approve."

Tender, though, is hardly the word for Clinton's hard-charging approach. At the meeting of the 15-member Asia-Pacific Economic Cooperation group, he pressed reluctant Asian leaders to rally around a vague commitment to greater economic integration down the



DECEMBER 6, 1993

PRESIDENT PITCHMAN

CLINTON'S HARD SELL IS HELPING U.S. BUSINESS

CORPORATE EMISSARY

Clinton personally pushing U.S. companies overseas projects such as a \$10 billion jet and telecom deal with Saudi Arabia. Cabinet and embassy officials are being urged to aggressively hawk U.S. wares.

ad. In doing, he sent a blunt message to the Europeans who are stalling global trade talks: If the EC fails to cut a deal by a mid-December deadline for wrapping up seven years of negotiations on the General Agreement on Tariffs & Trade, the U.S. may seek regional accords with Asia and Latin America.

The power play just might

work. Only a few months ago, the GATT talks were moribund, hopelessly deadlocked over France's refusal to give up subsidies for its farmers. Now, optimism is growing that the EC and the U.S. will work out an 11th-hour concession to buy French support. "Momentum is now overwhelmingly in favor of an agreement," says Commerce Under Secretary Jeffrey E. Garten. The major winners from a strong GATT agreement would include financial services, high tech, and agribusiness. But, says Joseph T. Gorman, chairman of TRW Inc.: "It's going to be very difficult to come away with a good agreement in the time allotted."

An even bigger market-access challenge awaits Clinton in February, when the President meets with Japanese Prime Minister Morihiro Hosokawa to conclude an agreement aimed at reducing Japan's \$50 billion trade surplus with the U.S. At a meeting on the eve of the APEC summit, Clinton failed to get Hosokawa to accept numerical targets for opening Japanese markets to exports. Some businesses are skeptical that the effort will bear fruit. "Why would countries with significant trade surpluses with the U.S. open their markets because there's some new cheerleader in the Administration?" asks Kevin L. Kearns, president of the U.S. Business & Industrial Council.

Clinton has moved swiftly in areas where he has had a

free hand. The most important change has been the easing of controls on sales to the former Soviet bloc and China. By yearend, he will remove some export restrictions on computer and telecommunications equipment potentially worth \$37 billion. Another move is coming next spring, when NATO is expected to eliminate the Coordinating Committee on Multilateral Export Controls (COCOM), freeing up billions more in potential high-tech exports.

ASIAN THORNS. The Administration has also moved to make the government more efficient at pushing foreign sales. The Overseas Private Investment Corp. has received \$40 million in new funds to insure U.S. investments in the former Soviet Union. And Clinton is adding \$150 million in funding for the Export-Import Bank. And on Nov. 22, the Commerce Dept. and the Environmental Protection Agency announced a plan to change regulations and take other steps to help U.S. companies tap the \$300 billion global environmental technologies market.

Of course, it's not all smooth sailing for Clinton's trade policy. China, the biggest growth market, poses the thorniest problems. By demanding progress on human rights as a condition for renewing China's most-favored-nation trade status next year, Clinton has set the stage for a showdown that could frustrate his export goals. A similar conflict is brewing over workers' rights in Indonesia, another hot Asian economy.

Another risk for Clinton is overpersonalizing his role as peddler-in-chief. But Clinton has no intention of playing Willy Loman, unable to keep up with a changing world. The budding super-salesman knows that economic growth through exports may be the best insurance against his own early retirement.

By Owen Ullmann and Dori Jones Yang in Seattle, with Douglas Harbrecht in Washington and bureau reports



YE
CONTROLS
Administration is
to scrap
A, the cold
port control
The effort has
\$37 billion
ial computer
com sales.

WAR CHEST
To promote exports
and counter foreign
governments that link
aid to sales,
Washington is
pledging \$150 million
in added funding for
the Export-Import
Bank.

COURTING CHINA
As a goodwill gesture,
Clinton has approved
the sale of an \$8
million Cray super-
computer to Beijing.
He also is lifting a ban
on key components for
China's nuclear power
plants—good news for
General Electric.

**TO RUSSIA
WITH LOANS**
Overseas Private
Investment Corp.
funding has been
upped to provide \$2.5
billion in loan guar-
antees and insurance
for U.S. companies
investing in joint
projects in Russia.

**DUELING WITH
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The U.S. Trade
Representative is
working to persuade
foreign governments
to enforce intellectual
property protections.
The potential big win-
ners: Hollywood and
software developers.

ILLUSTRATION BY NGUI3 CUS 12

AIRLINES



WINGED VICTORY: THE BRIEF STRIKE ASSURED AMERICAN OF ITS FOURTH STRAIGHT LOSS

DID CLINTON SCRAMBLE AMERICAN'S PROFIT PICTURE?

Intervening ended a messy strike but may prolong labor-cost problems

It was a powerful show of Presidential persuasion, all right. In a highly unusual intervention on Nov. 22, President Clinton achieved what five days of a crippling strike had failed to do: bring American Airlines Inc. and its flight attendants' union together.

Clinton's dramatic action, persuading the reluctant airline to accept binding arbitration, relieves the immediate woes of thousands of Thanksgiving travelers. It also may have given American a face-saving way to end a dispute that likely would have cost the company more than it stood to save in the short term.

In the long run, though, the outcome could create labor headaches for American and other major carriers, all of which are struggling to reduce their costs. Starting next year, American must negotiate new pacts with its pilots and machinists unions—and both are capable of inflicting more damage in a strike than the flight attendants.

"SIMPLY UNTENABLE." Certainly, American's 21,000 flight attendants did damage enough. "We shut down the world's largest airline for five straight days. We commanded the attention of a nation," boasts Denise Hedges, president of the Association of Professional Flight Attendants. Indeed, to the surprise of the carrier's management, the union grounded nearly two-thirds of American's flights after Nov. 18. The airline lost some \$15 million to \$20 million a day, ensuring a

loss for the year—its fourth straight.

Even in the face of such red ink, American Chairman Robert L. Crandall had resolved not to give in to the union's demands for higher pay. Just one day before Clinton's phone call, Crandall had said he was prepared to hunker down for a drawn-out dispute to hold the line on expenses. American, he said, must be able to compete with lower-cost rivals such as Southwest Airlines Co. (chart). As it was, the contract American wanted to impose on its flight attendants would have raised costs "well north of \$100 million" over four years, according to Crandall. Arbitration, he said, "could result in a contract that is simply untenable for the long term."

So why the change of heart? "When the President chooses to involve himself in something, his request is due a great deal of deference," Crandall said. In fact, though, Crandall may have been happy to have a way out of his bind. Weathering the full 11-day strike threatened by the union would have cost the airline at least \$200 million. That's probably slightly more than American would have had to add to the pot to meet the union's de-

mands in the first place, according to figures provided by both sides.

By taking up the President's offer, Crandall may have put a stop to the strike-related losses before they surpassed the savings from his imposed contract. Now, the arbitrator is likely to split the differences between the two sides, so that the airline won't absorb the full brunt of the union's demands. In the end, Clinton may have helped Crandall out of a tight spot. "I think some people can see it that way," concedes American CFO Michael Durham.

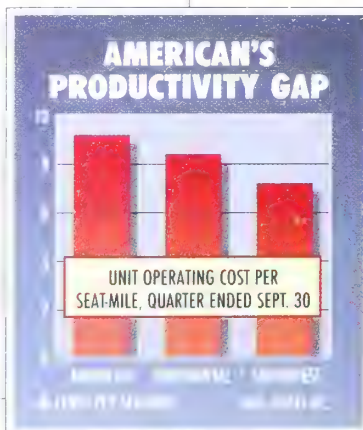
DIS-UNITED? But the arbitrator's decision, expected within 60 days, likely will set the tone for American's bigger battles with its pilots and machinists. American executives have said in recent weeks that they want to cut 20% from the carrier's \$5 billion labor bill, mostly by changing work rules and boosting productivity. For now, the flight attendants won't share in the cuts—putting more pressure on Crandall to wring savings from the carrier's other unions.

The outcome could well influence labor talks at United, Delta, and USAir, all of which are struggling to win concessions. "The arbitrator is going to have to recognize that whatever he does is going to set the tone for negotiations with the other unions," says Ralph J. Craviso, a Dallas labor consultant and former head of employee relations at American. United Airlines Inc. is threatening to break up the airline and sell off short-haul routes unless it can put a union buyout back on track. Already, though, some labor leaders are sounding cockier. Crows a union negotiator at United: "If the flight attendants can do this to American, imagine what pilots and machinists can do to United."

Such talk suggests that Clinton's intervention has shifted the balance of power in the airline industry at a critical juncture. Was that his intent? Industry officials in Washington think so, suggesting the move was a sop to labor, which is still smarting from the President's support for the North American Free Trade Agreement (page 45). Labor

Secretary Robert Reich denies there's any NAFTA connection, arguing that the administration's desire was simply to help smooth labor-management relations. But in the long run, that will take more than the Presidential phone call.

By Wendy Zellner
Dallas, with Michael
McNamee and Sharon
Payne in Washington



THE UNIONS VS. PRO-NAFTA DEMOCRATS: GET OVER IT

After 12 years of insult from Republican Administrations, the last thing unions needed was a political defeat inflicted by a Democrat. President they helped elect. But that's what labor got with the passage of the North American Free Trade Agreement (NAFTA). Now, union leaders and the Democratic Party find themselves wondering how to bridge the rift between them.

In truth, the two sides have been drifting apart for years. A growing number of Democrats, led by President Clinton, have focused on the competitive demands of a global economy. Organized labor, meanwhile, has tried to hold back the tide. The NAFTA fight only highlighted the schism. "It's clear that the union movement does have to go through dramatic change," says Richard W. Hurd, professor at Cornell University's School of Industrial & Labor Relations. "Rather than protecting the current system, they need to respond to the changing economy."

NARROW AGENDA. For years, labor and Democrats saw the world through the same economic and social prism. As long as the U.S. was a self-reliant industrial powerhouse, the goal for both was making sure that wealth was distributed fairly. But now, the flight of low-wage jobs has thrown labor into turmoil. Membership in manufacturing unions has declined precipitously, and cost-conscious employers are balking at union demands for big gains at the bargaining table. "There's a sense that labor is operating in an old '60s agenda and doesn't understand that things have changed," says Democratic strategist Ted Van Dyk.

Clinton and 102 House Democrats, meanwhile, saw NAFTA as a way to create jobs and expand the wealth base. Moreover, Clinton hoped to appeal to a



THE AFL-CIO'S KIRKLAND FLANKED BY THE TEAMSTERS' CAREY AND THE UAW'S BIESER

broad middle-class often angered by what it perceives as labor's narrow agenda. The '92 elections also strengthened the ranks of moderates willing to wreak havoc on labor-backed initiatives, such as Clinton's economic stimulus plan.

These divergent outlooks transformed the NAFTA fight into a battle for the heart and soul of the Democratic Party. Clinton accused the unions of "roughshod" tactics. Pro-NAFTA Democrats are still sore that the unions played hardball. "No organization can expect this member of Congress to be an automatic vote on anything," fumes Representative Mel Reynolds (D-Ill.). For their part, union leaders vowed revenge in the 1994 elections and have hinted that Clinton can't take their support in '96 for granted.

It would be a mistake for both sides

if the family feud went much further. As much of a New Democrat as he is, Clinton can't afford to alienate the unions. Their political contributions and foot soldiers form the cornerstone of Democratic campaigns. Indeed, the NAFTA voting patterns in the House could spell trouble for Clinton if he doesn't mend fences. Union-backed Democratic lawmakers from states that cast their electoral votes for Clinton in 1992 voted overwhelmingly against the trade pact. That's why, on the day after the NAFTA vote, Clinton called AFL-CIO President Lane Kirkland to arrange a meeting at the end of November.

Likewise, labor will embark on a suicide mission if it withholds support. Clinton is probably as good a friend as labor can get. Indeed, a senior White House official says, the Administration will "redouble efforts" to push for worker-retraining legislation and a bill to bar the replacement of striking workers. And Clinton's help in ending the flight attendants' strike against American Airlines Inc. is a far cry from Ronald Reagan's firing of air-traffic controllers.

But for labor and the Clintonites to reach an accommodation, union leaders must abandon efforts to stop immutable economic forces. Instead, they must take the lead in preparing workers to face upheaval. Labor and Democrats share an ambitious agenda that includes health care, job training, improved schools, and worker-safety initiatives. "We had an intense squabble, but it's time to move on," says Labor Secretary Robert B. Reich. After the passions of NAFTA have cooled, unions may discover they agree.

Garland covers national politics in Washington.

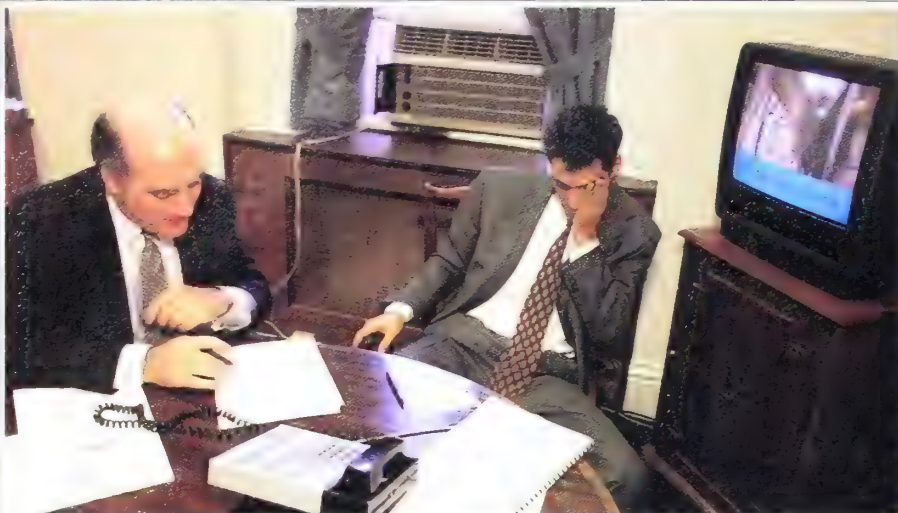
FIVE WHO DEFIED LABOR

■ LABOR CONTRIBUTIONS

A regional sampling of Democratic representatives who said "aye" to NAFTA, and their 1991-92 campaign contributions from unions

(in thousands of dollars)





DALEY AND EMANUEL: ORCHESTRATING THE CAMPAIGN AND PROVIDING "A SENSE OF MISSION"

THE A-TEAM THAT SAVED NAFTA'S BACON

A flack, a money man, the trade rep, and a Chicago street pol



It's the stuff of Hollywood buddy movies. A motley bunch of misfits is assembled for a seemingly suicidal mission. The odds are long. The task is perilous. But miraculously, the ragtag recruits rise to the occasion and win a great victory.

Forget *The Dirty Dozen*. Meet Bill Clinton's NAFTA Ninjas, four politically bruised aides who engineered the stunning Nov. 17 House victory for the North American Free Trade Agreement.

ARISE! The team leader is NAFTA czar William Daley, the tough Chicago pol who had been passed over for an Administration post. Then there's Rahm I. Emanuel, a former Goldman, Sachs & Co. consultant whose abrasive style led to his ouster as White House political director last June. U.S. Trade Representative Mickey Kantor, who had been passed over for the White House chief of staff job after former campaign workers objected to his autocratic manner, is also on the team. And rounding it out is boyish George R. Stephanopoulos, elbowed out of the top White House communications job in a shakeup last June.

In the bloody NAFTA fight, which pitted

friend against friend and allied the Administration with Republicans and Big Business, group members' weaknesses suddenly became strengths. Daley and Emanuel orchestrated the campaign from their command post in the Old Executive Office Building. Emanuel, 34, a former Israeli soldier and ballet dancer whose in-your-face style and unpredictable temper had alienated top Dems, was well suited for his role as NAFTA's chief commando. "He was the enforcer," says one senior White House adviser. The calmer Daley "was able to bring a sense of order and mission," says investment banker Wayne Berman, a former Commerce Dept. official.

While Daley and Emanuel ran the NAFTA war room, Kantor tirelessly cut deals. As the Nov. 17 showdown neared, he awoke Representative Robert T. Matsui (D-Calif.), a key NAFTA supporter, at 3 a.m. to regale him with details of the completed negotiations with the sugar

and citrus growers. The groggy lawmaker asked Kantor to call him in the morning, which Kantor did—at 8:45 a.m. "I never left his office," says Matsui.

Kantor played hardball to win industries' support. Sugar growers privately say he issued a veiled warning: accept the deal, or the Administration would consider ending federal subsidies. The pact with sugar and citrus growers, as well as textiles and wheat, turned more than two-dozen votes and clinched the victory. **NO SECRET.** On Capitol Hill, Stephanopoulos lined up business groups to give House members last-minute reasons to vote for NAFTA. He and Thomas H. Nides, Kantor's chief of staff, turned a key vote when they persuaded rust-belt Representative Thomas C. Sawyer (Ohio) to pledge his support. Stephanopoulos convinced him by producing statistics showing that economic growth in Sawyer's Akron district depends more on high-tech research labs than union shops. "Stephanopoulos knew where the bodies were, who was gettable," says one GOP strategist. One reason: He used to be top legislative aide to House Majority Leader Richard A. Gephardt (Mo.), an ardent NAFTA foe.

For Stephanopoulos, the NAFTA mission was problematic. It was no secret that he wanted the President to push health care over free trade. But he, too, got excited. "His heart was never in NAFTA, but he came off smelling pretty good," says one White House insider.

To the victors go the spoils, and now everyone wants to know what Clinton will do for his NAFTA warriors. Daley, being mentioned for a top post—although he's interested. "I won't b.s. you," he told *BUSINESS WEEK*. "I'd give it some thought." Clinton is expected to reward Emanuel by putting him in charge of a White House anticrime program.

Kantor's name is being bandied about as a possible successor to Commerce Secretary Ronald H. Brown, if allegations now under investigation that Brown took a \$750,000 bribe to lift a trade embargo against Vietnam lead to criminal charges. Brown has denied any wrongdoing. And Stephanopoulos, who already had a powerful position as Clinton's senior policy adviser, will have even more clout in future battles. All in all, it's not a bad ending for a story featuring a bunch of misfits as heroes. The question now: How will they perform in the sequels?

By Douglas Harbrecht with Richard S. Dunham in Washington

PULLING ALL-NIGHTERS FOR NAFTA

RAHM EMANUEL Hot-headed, abrasive, expert at executing game plans. May get a leading role in promoting Clinton's anticrime package as a NAFTA reward.

WILLIAM DALEY Gruff, cagey son of the legendary Chicago mayor, was passed over for Transportation Secretary. Now touted for eventual Cabinet job.

MICKEY KANTOR Former campaign chairman made scads of enemies and was exiled to U.S. trade rep post. After NAFTA, his stature is rising.

GEORGE STEPHANOPOULOS George couldn't get along with the press and lost his spokesman post. But he rallied crucial last-minute business support for pact.

THE AIR HAS GONE OUT OF HIS EARS'

Perot got a pasting, but his backers could defeat some incumbents



By his own account, Representative Stephen Horn (R-Calif.) owes his narrow 1992 victory to the followers of Ross Perot. So it's no surprise that as freshman legislator, he has been a strong advocate of Perot's government-reform agenda. But Horn's support for the North American Free Trade Agreement has Perotnistas vowing they'll never vote for him again, even if it means voting a liberal Democrat. Horn isn't deterred by the threats. "If it's what they want," he says, "so be it."

How times have changed. Just a few months ago, officeholders quaked at the thought of being targeted by political annihilation by a Dallas billionaire. But now, in the wake of Perot's astonishing debate performance and his failure to kill NAFTA, pols dismiss him as an incredible shrinking populist. Says Representative Albert T. Matsui (D-Calif.): "He's gone from a powerful force to someone who's negligible. There's no retreat, no fear." Adds Alvin Levin, president of the Democratic Leadership Council: "The air has gone out of his ears."

WANE OF BOUNCE. Even in the fickle world of politics, the abruptness of Perot's plunge is unusual. In a March Gallup Poll, taken during the Texan's heady bout of bashing the Clinton budget, Americans viewed Perot favorably by a 61-to-28% margin. By mid-November, his positive rating had plummeted to 15%, while his negatives climbed to 58%. Most respondents said it was no longer believable or important issues. And the poll shows only 9% of voters remain to be strong supporters, down from a peak of 24% in March (chart). Adds Marshall, president of the moderate Progressive Policy Institute: "People are

beginning to interpret him as a conventional politician, not an antipolitician."

Still, officeholders who cavalierly dismiss Perot may pay with their careers. In the past, he has shown amazing resilience, bouncing back from the nadir of his withdrawal from the Presidential race last July to win 19% of the vote. "I'm as close to bulletproof as anybody can be," Perot insisted in a session with reporters on Nov. 17. "I can't be fired. So we can keep on keeping on."

While Perot's Presidential hopes may

"I'm as close to bulletproof as anybody can be. I can't be fired. So we can keep on keeping on"



have dimmed, he still commands a formidable bloc of very angry voters. "We're not going away until we begin to see some changes," says Jim Bigelow, Perot's New York State director. Republican pollster Frank Luntz estimates that Perot's minions could play a crucial role in deciding some two dozen congressional elections, particularly in Midwestern districts with declining manufacturing bases. "With NAFTA passing, Perot's personal political life is over, but his legions still survive," says Luntz, who polled for Perot in 1992.

Perot admits his organization has no game plan for 1994 and beyond. "We're in turmoil now, to be totally candid," he says. Indeed, his extensive state networks have to agree on a new agenda if they're to regain the political initiative. Some follow-

ers hope to concentrate on congressional reform, including a ban on foreign lobbyists, abolition of political action committees, a balanced-budget amendment, and term limits. Others favor creating a third party and recruiting Perotnista candidates for Congress. Still others want a *jihad*: They would concentrate on defeating NAFTA supporters.

Perot himself is crisscrossing the country to meet a pledge to hold United We Stand America rallies in all 50 states this year. He promises "a huge, formal membership drive" in every congressional district by Dec. 31. Beyond that, the Texan is keeping his options open. He is discussing a "surgical approach" in which he flexes his political muscles by targeting a few vulnerable incumbents in their parties' primaries. Still to be decided: whether Perot will name his own candidates or back others. Either way, his thinking is that "not many people vote" in primaries, and his hordes can make a difference by showing up en masse. One possible target: House Ways & Means Committee Chairman Dan Rostenkowski (D-Ill.), already reeling from a grand jury investigation into alleged financial irregularities.

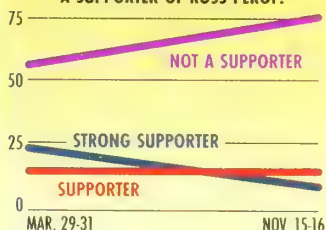
COSTLY LEAP. But Perot faces some large obstacles. For one thing, many of his supporters are independents, and most states, including Illinois, require them to reregister in order to vote in primary elections. That, plus early filing deadlines in key states, means that Perot forces have little time to come up with candidates. By the week after New Year's, for example, deadlines will have passed in both Illinois and Texas. And if Perot decides to leap headfirst into partisan politics, he'll risk the tax-exempt status of United We Stand. That, in turn, would jeopardize Perot's ability to fund the operation out of his pocket with little or no disclosure of its finances.

Strategists for both parties are designing strategies to woo Perot voters even as they belittle the former candidate. They know that the 1994 elections are a critical test of the Perotnistas' political influence. So does Perot. "I don't care if I get beat up or not," he says. "The next time around, I won't be such a schoolboy." Perot's legions clearly are spoiling for a fight. "I can't tell you how upset people are," says Texas Perot organizer Bill Walker. "We'll remember in November." Even with Perot weakened, that's something that incumbents had better not forget.

By Richard S. Dunham in Washington

ROSS ON THE WANE

QUESTION: DO YOU CONSIDER YOURSELF A SUPPORTER OF ROSS PEROT?



▲ PERCENT
SURVEYS OF 1,000+ PEOPLE
MARGINS OF ERROR ± 3 PERCENTAGE POINTS
DATA: CNN/USA TODAY POLLS



TIMES CO. HAS POURED BIG BUCKS INTO TRADITIONAL PUBLISHING, SUCH AS THE BOSTON GLOBE

IS THE TIMES FALLING BEHIND THE TIMES?

New York Times Co. seems content to let others pioneer multimedia

Investors just can't get enough of multimedia. Wall Street has bid up the shares of almost all media companies, figuring they'll offer much of the information that will give multimedia zing. Most publishers, meanwhile, are rushing to set up on-line services: In mid-November alone, Dow Jones & Co. and Washington Post Co. launched projects to develop interactive versions of *The Wall Street Journal* and *The Washington Post*.

Missing from the frenzy, however, is the New York Times Co. The publisher of the nation's most prestigious daily newspaper has been pouring huge bucks into traditional publishing, including a \$1 billion merger in October with Affiliated Publications Inc., publisher of *The Boston Globe*. But it is stepping only gingerly toward the electronic age. The result: Times Co.'s shares lag those of its rivals (chart). "Instead of just standing there, [other publishers] are going after the market," gripes Goldman, Sachs & Co. media analyst Eric S. Philo. "*The New York Times* is just not doing it."

What gives? Times Co. President Lance R. Primis insists that "it's clear *The New York Times* is going to be a player" in multimedia one day, adding that some "great opportunities exist for a company that has as much original

data as we do." But so far, Times Co.'s moves have been small. On Nov. 19, it announced an agreement with Nynex Corp. that will launch a daily fax delivery service of a customized assortment of stories to subscribers, and it recently launched FasTrack, a service that allows job seekers to register resumes with the *Times* and send them electronically to prospective employers.

One reason Times Co. may not be moving any faster is a deal the company struck a decade ago with Mead Data Central Inc.'s NEXIS data base. Under its terms, NEXIS holds exclusive on-line rights to *New York Times* stories 24 hours after publication, says Mead Data Marketing Director Deborah Silcox. That doesn't stop Times Co. from distributing its information electronically right after publication. But a day later, Mead Data holds further on-line distribution rights, barring Times Co. from signing up with other electronic distribution companies or offering a similar service.

Mead Data also has

the unilateral right to renew the contract every year "in perpetuity," Silcox adds. Times Co. acknowledges the contract exists but won't discuss how it fits its expansion into multimedia.

Wall Street, meanwhile, wonders Times Co. is simply overly preoccupied with problems in its publishing business. It suffered from a two-year delay starting up a \$450 million printing plant in Edison, N.J., as management wrestled new labor agreements from union. Then there was an expensive, doomed foray into Atlanta, where it bought the suburban *Gwinnett Daily News* and two small Georgia weeklies for \$88 million in 1987, only to close the money-losing *News* last October and take a \$53.8 million pretax charge. As a result, the company lost \$44.7 million last year on revenues of \$1.8 billion.

ON-LINE CHATS. Will Times Co. suffer from not jumping into multimedia head first? Faster-moving rivals think so. David D. Hiller, senior vice-president of development with Chicago-based Tribune Co., contends that knowledge gained in its numerous multimedia and interactive ventures is "critical" to the company's future. Adds Roger Fidler, interactive-media guru at Miami-based Knight-Ridder Inc.: "There's an advantage to being prepared and being there first with some of these products."

Other publishers seem to agree. The planned interactive version of *The Washington Post*, scheduled to begin next July, will allow readers to place their own classified ads, "chat" electronically with other readers and *Post* editors, and call up detailed information on neighborhoods and entertainment. All this will be available on cable TV as well as by computer. Development of the interactive *Wall Street Journal*, which hasn't been announced, is just getting started. Staff members were assigned to the project mid-November.

Primis insists Times Co.'s go-slow approach makes sense. "I'm not looking to pour a lot of money down a pit" by moving too quickly into multimedia, he says. Meanwhile, there are signs that older

Times businesses are turning around a bit. Wheat, First Securities Inc. expects the company to turn a \$81.4 million profit this year. But Times Co. must show more progress to quiet critics. With the multimedia age dawning, time's a-wasting.

By Elizabeth Leary
in New York



WOLMAN. DORFMAN. CNBC PROPHETS.

Bill Wolman. Dan Dorfman. Get to know these faces. They can change your financial future. Because they've got the courage to challenge conventional wisdom. On Wall Street. And in Washington. They have access to the information that

moves the markets. The insight to evaluate the economy. The foresight to predict the unpredictable. They're not afraid to call it as they see it.

WHEN they see it. Because they know how important it is for you to be one step ahead. To secure information in plenty of time

to make critical financial decisions.

Dan Dorfman – on top of the nation's corporate scene. Bill

Wolman – on top of the nation's economy. They're an essential

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HOGAN HAS DECENTRALIZED DECISIONS, CHANGED THE PRODUCT MIX, AND BOOSTED MORALE

TAKING STOCK AT HOME SHOPPING NETWORK

Amid the Diller-dallying, the CEO is winning kudos as a Mr. Fixit

Nearly a year after Liberty Diller has hovered over Home Shopping Network Inc. It has not been a comforting presence. First, there was the announcement of a merger with a shop-at-home service in Britain with British Sky Broadcasting. Diller scuttled the deal in June by negotiating a pact with Sky for his QVC Network instead. Then came the merger. On July 12, Diller announced that QVC would acquire HSN in a stock swap worth \$1.1 billion. Now that plan, too, is off—superseded by Diller's bid for Paramount Communications Inc.

Suddenly, it's back to square one for HSN Chief Executive Gerald Hogan, who has been buffeted by events since he took the reins in February. "To say he has been under fire is putting it mildly—I don't think a guy could have come in under more duress and fared better," says HSN Director J. Anthony Forstmann. "Under the circumstances, he's done quite an incredible job."

Hogan was recruited from Turner Broadcasting Systems Inc. by Liberty Media Corp. following its purchase of a controlling interest in St. Petersburg (Fla.)-based HSN. His mandate: revitalize a company that had stagnated under co-founder Roy M. Speer. Sales had rocketed in five years, to \$1 billion by 1990, then flattened. Management controls

were lacking, and Speer's forays into such ancillary businesses as infomercials had weakened the core shopping service.

Within weeks of Hogan's arrival, HSN was rocked by allegations of financial misdeeds and self-dealing—including accusations that employees took kickbacks from vendors. The allegations were contained in a lawsuit, still pending, by a former HSN employee against the company. Liberty, Speer, and other HSN officers, HSN and the other defendants have denied the charges in legal briefs. HSN also faces shareholder suits containing similar allegations and says the Securities & Exchange Commission is investigating.

As the scandal unfolded, Hogan tried to buck up HSN's demoralized work

force. But he admits that it has taken longer to change the corporate culture which suffered from Speer's autocratic management. "All decisions were funneled to him," says Hogan, who worked to decentralize decision-making and institute other changes. HSN took an inventory write-down of \$22.7 million and altered its merchandising mix to eliminate items that cost less than \$10.

Not all of Hogan's fixes have worked. In the nine months ended Sept. 30, revenues dropped to \$750 million from \$800 million the year before. In part, sales slipped because HSN spun off two operations. But business suffered over the summer after HSN began focusing on pricier goods, such as computers and jewelry. And consumers objected when HSN moved a fashion program out of its early-morning slot. HSN reinstated the fashion program and readjusted its merchandising mix—and sales in September and October improved.

Still, Wall Street generally praises Hogan's early moves. "He has done what he could—small things and the right things," says Peter J. Siras, an analyst with UBS Securities Inc. The bigger challenge now: to improve sales by broadening HSN's reach and turning occasional customers into regular buyers.

MERGER MYSTERY. HSN's most compelling advantage: its new allies. TeleCommunications Inc. and Bell Atlantic Co. Liberty has agreed to drop its 22% interest in QVC should Diller acquire Paramount. That outcome certainly is a question: Both QVC and Viacom Inc. extended their offers for Paramount pending a court ruling on the legality of Viacom's tender. If Diller wins, Bell Atlantic Chairman Raymond W. Smith, who will acquire the Liberty interest, part of his proposed acquisition of Time Warner would be free to focus on HSN as an entrée to the home-shopping arena.

Smith's backing should aid HSN's powerful retailers, such as Spiegel-Tenenbaum and R. H. Macy & Co. launch their own home-shopping vehicles. Meanwhile, Hogan is building relationships with programmers to provide new HSN venues. He is discussing a joint venture to market products with Black Entertainment Network through BET's existing cable programs. And international expansion, particularly in Europe, remains high on Hogan's list.

Europe, of course, was where Hogan first got burned by Diller. Is he still sore? Nah. Diller's presence has generated excitement in the home-shopping arena, Hogan says, adding that "it's a long race." Indeed, if Diller's Paramount bid falls through, though, he may well be back on HSN's doorstep.

By Gail DeGroot in St. Petersburg, Fla.

HSN, WITHOUT QVC	
1993 Results	
NET SALES*	\$750.1 million
GROSS PROFIT*	219.2 million
OPERATING LOSS*	-15.9 million
HOUSEHOLDS REACHED	59.2 million
CLUB MEMBERS	5.0 million
MEDIAN MEMBER INCOME	\$45,201
MEDIAN AGE	43.5
AVERAGE ANNUAL PURCHASES PER MEMBER	\$301

*Nine months ended Sept. 30. SOURCE: COMPANY REPORTS

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DOS Programs

*IBM Performance July 1990. **Euphoria Computer Week, June 28, 1990. The speed was measured in 100% and 100% of the time taken to run the same program using DOS, Windows and OS/2 programs running on 286, 386 and 486 architecture. Performance was measured in terms of the number of programs that could be run at the same time. The higher the number, the better the performance. *Adobe Type Manager is a registered trademark of Adobe Systems Incorporated. © 1990 IBM Corp.



CORPORATE AMERICA, DR. FEELGOOD WILL SEE YOU NOW

Stephen Covey's precepts are drawing lots of executive disciples

There's a mystical aura about the man on the dimly lit stage. He speaks in a near-monotone whisper, as if in a cavernous church, occasionally venturing into the audience to press a point. The video on two large screens magnifies his every move.

Another TV evangelist delivering a sermon to his flock? Not here. On Nov. 19, the crowd that has filled New York's Jacob K. Javits Convention Center is purely professional—some 600 managers and executives from Citicorp, Merrill Lynch, and other corporate giants, a smattering of entrepreneurs, even some government bureaucrats. Each has paid \$239 for six hours of feel-good inspiration, analysis, and advice.

For their money, they get Stephen R. Covey, today's high priest of self-help. A modern-day version of Norman Vincent Peale, Covey is hot—and getting hotter. His *Seven Habits of Highly Effective People*, still on *The New York Times* best-seller list after 144 weeks, has become a catechism of leadership, selling 3.5 million copies through 31 printings. His Leadership Center in Provo, Utah, now employs 450 (highly effective) people, an increase from 50 less than a decade ago. They spread the word through various publications and seminars that attract the likes of AT&T, Saturn, and Xerox.

SWITCHING SPECS. The "word" can be boiled down to Covey's seven precepts for success. They urge followers to be proactive, establish clear-cut goals, think positively, and act ethically (table). In truth, the Covey message isn't much more than recycled clichés, translated into business-speak and updated with charts, tables, and illustrations. The 61-year-old Covey doesn't push it much beyond that.

His message, he says, is "common sense organized."

However it is defined, Corporate America seems to love it. "Covey is a cross between a psychoanalyst and a university professor," says a Merrill Lynch vice-president who attended the New York session. "It's like organizational group therapy." Take Covey's "win-win" principle: It is little more than the old idea of encouraging people to seek mutually beneficial solutions. Conoco Inc. says it is Covey's restatement of the concept that helped it develop a program that keeps some displaced employees on the payroll six months after their jobs

have been eliminated. In that time, the can apply for open positions within the company. Conoco says the program has saved \$12 million in reduced severance payments since May, 1992.

Many of Covey's ideas are rooted in religious teachings—he is a devout Mormon with nine children. "I'm a great believer in studying the scriptures and the philosophy of the great thinkers," Covey says. It shows, as he wanders from Albert Einstein to Sigmund Freud in the course of the morning session.

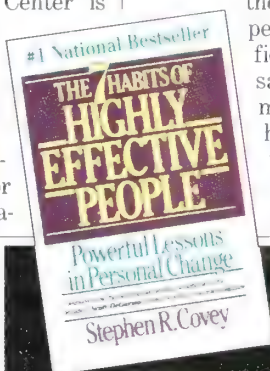
His day-long seminar is filled with jabs at some of the narrow-minded practices of Corporate America—and the audience eats it up. At one point, he strolls over to two managers and switches the eyeglasses. One protests, claiming that he can no longer see. "You're not thinking positively enough," says Covey. "This is the company way. When you want your opinion, we'll give it to you."

ADULATION. The line draws a chuckle from the crowd. "He walks the talk more than anyone else," says R. Michael Baron, quality systems manager at Maxwell House Coffee Co., who also attended the seminar. "He lives it, and you can see it." Nicholas A. Sabatini, a manager with the Federal Aviation Administration, describes himself as a Covey disciple. He brought 15 employees along to the New York meeting. "Covey is able to identify and put together so many of the things I've thought about," he says.

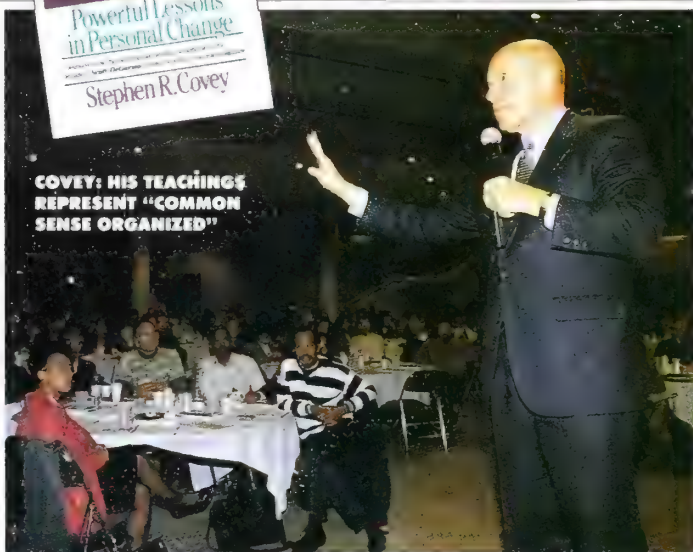
What's all this adulation worth to Covey and his center? About \$50 million annually—thanks to sales of audiotapes, a monthly newsletter, and thousands of speeches. Covey says he gets at least 20 invitations each day to speak and expects to make up to 110 appearances next year.

Still, the Harvard University MBA, who taught organizational behavior for years at Brigham Young University's business school, pooh-poohs the notion that he has become a cult figure. "I hope not, because the power is not in me at all," says Covey. "It's all in the principles. I don't like the spirit of cult, or guru, having disciples at all. Guru or not, Covey keeps packing them in."

By Lori Bongiorno in New York



COVEY: HIS TEACHINGS REPRESENT "COMMON SENSE ORGANIZED"



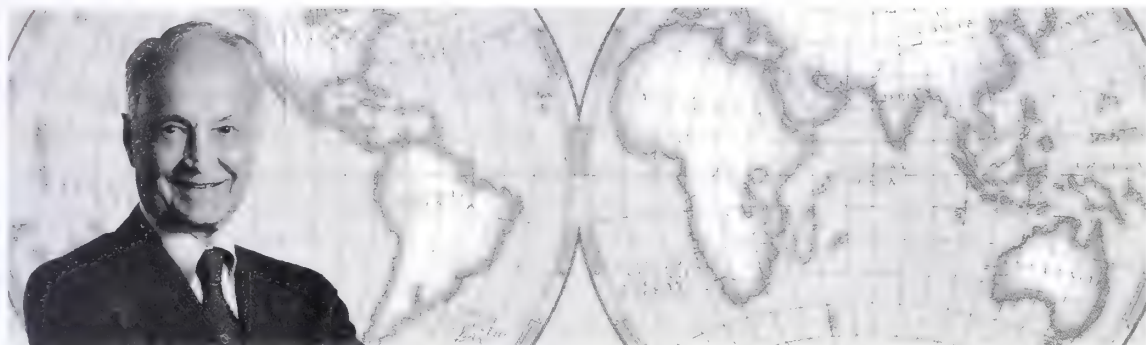
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- | | |
|---|---|
| 1. BE PROACTIVE | We are responsible for our own lives |
| 2. BEGIN WITH THE END IN MIND | Know where you're going to understand where you are now |
| 3. FIRST THINGS FIRST | Organize and act around priorities |
| 4. THINK "WIN/WIN" | Look for mutually beneficial solutions |
| 5. UNDERSTAND—THEN BE UNDERSTOOD | Listen to see how others see things |
| 6. SYNERGIZE | Make a whole greater than the sum of its parts |
| 7. SHARPEN THE SAW | Take a break to renew your resources |

DATA: THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE

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THE K'NEX THING FOR THE LEGO SET

A fast-selling new entry rides the boom in construction toys

The toy business is nothing if not conservative: In the face of fickle preteen tastes, manufacturers tend to stick with the tried and true. So toyland novice Joel I. Glickman didn't get far when he pitched his idea for a novel construction play set to the big guys three years ago. Hasbro and Mattel passed on the proposal. LEGO, which develops all of its own products, didn't even give Glickman a hearing.

Undaunted, Glickman shopped his concept directly to Toys 'R' Us, the giant retailer, as well as to discounters Meijer and Target Stores. Sure enough, his K'NEX flew off the shelves last autumn in tests in Philadelphia and Detroit stores. Now, heading into its first Christmas season, K'NEX is a genuine phenomenon. Powered by a \$7.5 million TV campaign (paid for with investments from friends and relatives) and bolstered by big advance orders from distributors and retailers, Glickman expects to sell all of the \$25 million worth of K'NEX that his Connector Set Toy Co.'s Hatfield (Pa.) factory can produce this year. "The demand is much greater than anything we can make," he says. Pollster Maureen Michaels, who has seen kids warm to the toy in surveys, says: "It has the potential to be a real hit."

JUMP-START. This Christmas season could use some hits. Kidder, Peabody & Co. figures toy sales, including fast-selling video games, will rise by a respectable 11% this year, to \$22.5 billion. But that's down slightly from last year's nearly 15% surge. To make sure sales chug along at a steady pace, many toymakers and retailers jump-started the season with November price-cutting and discounting. Mega-retailer Toys 'R' Us Inc. turned out a coupon-laden insert for the Nov. 7 editions of newspapers nationwide. The brochure offers discounts on a variety of toys, including K'NEX. The catch: Coupons expire on Nov. 30.

By building sales early, toymakers

and retailers hope to avoid having to count on a last-minute sales surge like the one that pulled their chestnuts out of the fire last Christmas. "We think the recession is ending, but we're not taking any chances," says Mattel Inc. Chief Executive John W. Amerman.

As usual, a few top-selling toys have emerged (table), including K'NEX. What is a K'NEX? Imagine something between LEGO and Tinker Toys: Children plug together color-coded rods and odd-shaped pieces to build everything from space-

with his designer's eye to churn out prototypes.

Credit his success in part to timing. Construction toys are hot: U.S. sales last year reached \$267 million, up 13.6%, according to the Toy Manufacturers of America. Rivals know a good thing when they see it. LEGO is introducing new products this year, including LEGO TECHNIC sets that familiarize kids aged 10 to 14 with gears, pulleys, and beams. Meccano, a French outfit, in 1991 reintroduced updated Erector Sets after a 10-year absence from the U.S. market. **RAVES.** K'NEX has several advantages. First, both kids and parents seem captivated. "It's easier to build with than Tinker Toys or LEGO, and when you're done, it really operates," says Viola Moriarty of Broomfield, Colo., whose eight- and six-year-old daughter will share a \$60 K'NEX. A poll of 8,000 kids by *FamilyFun* magazine named



GLICKMAN: MANUFACTURERS SAID NO, BUT TOYS 'R' US SAID YES

WHAT ELSE IS HOT FOR CHRISTMAS

TALKING BARNEY HASBRO A chat-version of the purple dinosaur

MIGHTY MORPHIN POWER RANGERS BANDAI Action figures from the TV show: Teen heroes commune with dinosaur spirits and fight aliens

MORTAL KOMBAT ACCLAIM ENTERTAINMENT A violent, highly realistic video game

BARBIE MATTEL A \$123, three-foot-tall *My Size Barbie* with outfits that can be shared by little girls

TALKING ALPHABET ALPHIE HASBRO A laptop-like toy that teaches spelling and diction

DATA: BUSINESS WEEK

ships to Ferris wheels. In some surveys of kids' preferences, K'NEX has beaten LEGO's popular sets. *Parenting* magazine calls it one of the season's best. Contributing Editor Christine Olson says K'NEX "is kind of a breakthrough. There aren't too many difficult parts but enough that you can put them together in a zillion different configurations."

Glickman, 52, isn't your typical toymaker. His family business, Rodon Group, sells injection-molded plastic products, such as eyeglass cases and the plastic doodads that keep home-delivery pizza boxes from collapsing. That stuff produces \$40 million in annual revenues for Rodon. A former art student, Glickman got the idea for K'NEX while bending plastic straws at a wedding. He teamed his plastics expertise and Rodon's state-of-the-art molding machinery

K'NEX best of class among building sets.

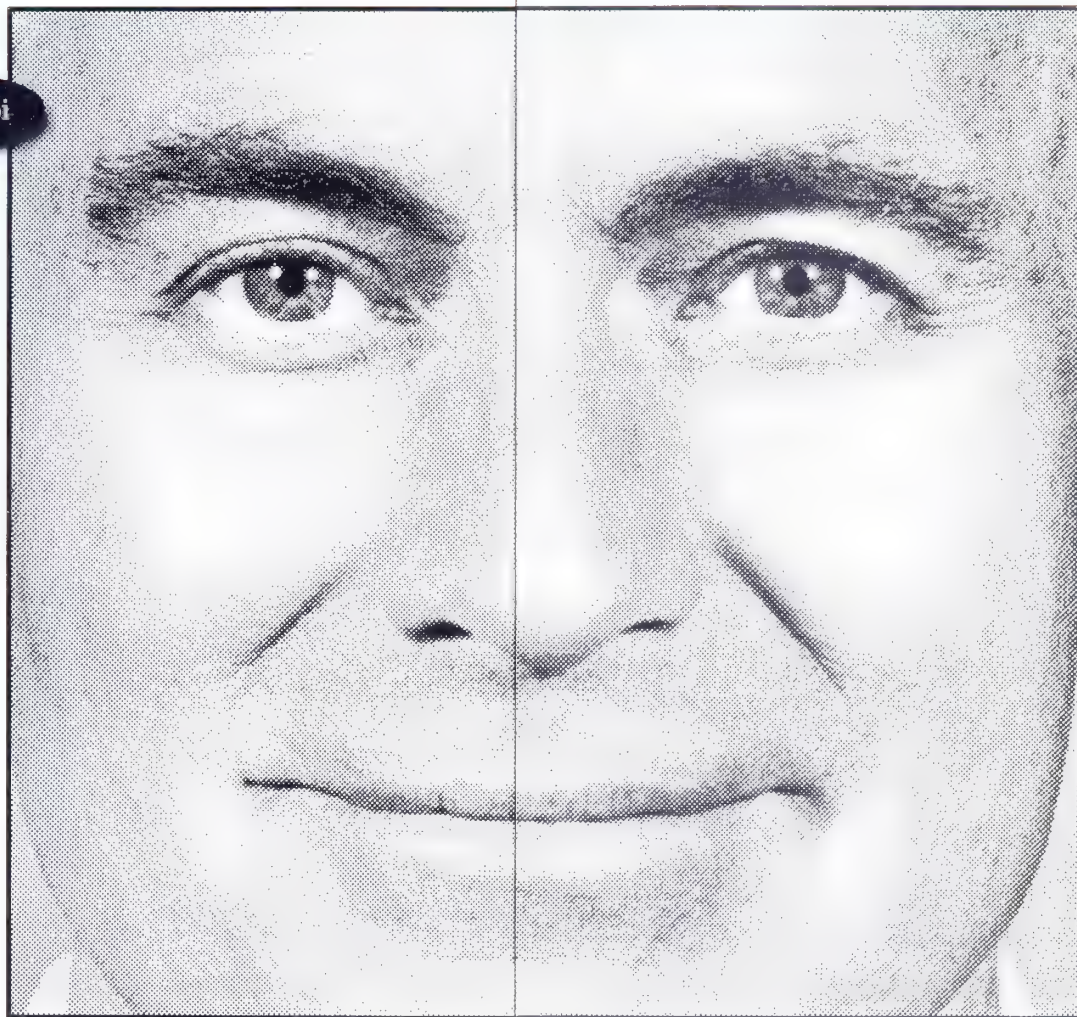
Experts praise the new sets for developing creativity: "A wonderful toy," says toy consultant and reviewer Ruben B. Rouffberg. Glickman has been hitting the educational theme hard, bringing a 2,000-square-foot traveling exhibit of K'NEX to science and children's museums in 13 cities this year.

The glowing reviews haven't hurt, especially those from Toys 'R' Us. After Chairman Charles Lazarus praised K'NEX at last February's Toy Fair, orders from Kmart and other retailers kicked in. In the toy industry, only one thing counts more: a bunch of kids shouting "I really want it" as they dream up their holiday wish lists.

By Joseph Weber in Philadelphia, u. Eric Schine in Los Angeles and Sandra Atchison in Denver

Look

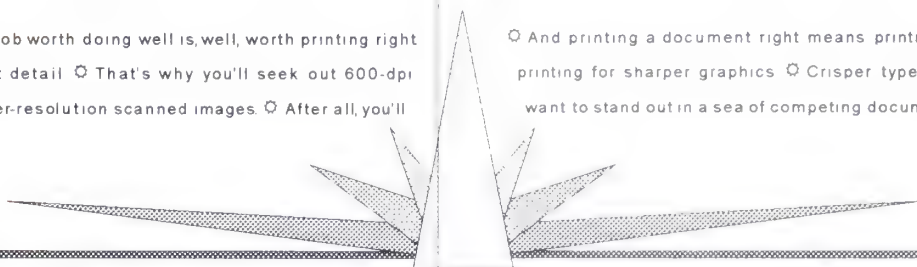
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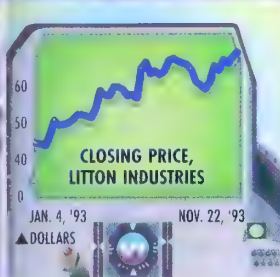




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BY KEITH H. HAMMONDS

LOSING BELL



HAT BAD NEWS?

Like the Teflon stock, Litton Industries shares have soared this year, in the face of ongoing grand jury investigations for possible fraud. It comes the Nov. 22 news the company faces a new wave of alleged misdealings. It confirmed that the Pentagon is investigating whether it paid for repairs of navigation equipment that were never made. The new charges may foil Litton's plans to spin off its field services and industrial automation units, which had propelled the stock. Its stock dropped \$2.75, to \$37 a share, on word of the probe. But it remains near its 12-month high.

DATA: BRIDGE INFORMATION SYSTEMS INC.

IN FOR LABOR

Another shoe dropped at USX. Its U.S. Steel unit agreed on Nov. 22 to union demands for job security and a say in how the company is run. Sources involved in the talks say the biggest concession is a labor seat on the board. USX refused to grant the director's seat in contract negotiations early this year, but talks broke down around that issue in March. But In-Steel, then the other major steelmakers, agreed to the union's demands in exchange for a 10-year contract and productivity gains. USX "had no choice after the other companies went along," says a parent in the talks.

SUN SHINES ON NeXT

Steve Jobs pulled another rabbit out of his hat. Rival Sun Microsystems announced on Nov. 23 that it will invest \$10 million in NeXT, which has run through most of the \$200 million invested by Jobs, Canon, IBM, and Ross Perot. NeXT won't say who's selling stock to Sun, or how much equity that company will receive. Sun will get access to some of NeXT's "object-oriented" software to use in its own operating system. That could give Sun as much as a year's head start over competitors on next-generation software.

GM AND THE UAW: WAR, PEACE, WAR...

Labor peace at General Motors can be extremely short-lived. No sooner had the company signed a new contract with the United Auto Workers union on Oct. 22 than UAW Vice-President Stephen Yokich blasted the company for violating the deal. It seems managers in locations such as Sandusky, Ohio, are threatening to sell plants if union leaders there don't agree to changes in local contracts. Those threats contradict promises in the national pact not to sell certain plants.

HEADLINER

SANDY SIGOLOFF, CALIFORNIA'S SCHOOLMARM

Financier Sanford C. Sigoloff has a decidedly mixed record. He has resurrected such troubled companies as Daylin, Wickes, and Republic, but failed to save others, such as retailers B. Altman and Bonwit Teller. Soon, Sigoloff may be facing his biggest turnaround challenge yet: streamlining California's \$27 billion education bureaucracy.



Governor Pete Wilson nominated Sigoloff, 63, as the state's superintendent of public instruction—making him the latest in a string of business executives recruited by beleaguered school systems. Questions remain about whether he will be confirmed

when the legislature reconvenes in January. If he wins the job, Sigoloff has vowed not to run for reelection in next summer's primary. That gives him 11 months in office.

Nevertheless, California's business Establishment is nearly united in its support for Sigoloff, who promises to make a difference. "Sure, I come in as a lame duck with not a lot of time," he says. "But I did my due diligence. In a troubled business, you don't have a lot of time to understand the parameters, prioritize them, and set up a master calendar of events to accomplish."

By Larry Armstrong

Yokich says he will call strikes in January if midlevel managers don't back off.

SCULLEY AND APPLE: NO HARD FEELINGS

John Sculley already makes \$1 million a year and holds millions more in stock warrants at Spectrum Information. But Apple, his old employer, granted him a

"separation agreement" valued at more than \$4 million, says a preliminary proxy statement. Apple paid Sculley a year's salary of \$1 million and will award an additional \$750,000 in "consultant's fees." He can exercise stock options worth \$2.4 million. Apple will pay "fair market value" for Sculley's Woodside (Calif.) property, including a house listed for \$3.95 million. Why is Apple so generous with profits so precarious? Says an Apple spokeswoman: "We think it was the appropriate thing to do."

ET CETERA...

- ▶ KLM and three other European airlines dropped plans to merge into a single carrier.
- ▶ AT&T fired ad agency Ayer, awarding its long-distance account to FCB/Leber.
- ▶ Grumman agreed to pay \$20 million to avert criminal fraud charges.
- ▶ Apple will offer wares from L.L. Bean and Tiffany's on CD-ROM discs.

PHOTO FINISH



MOSCOW McDONALD'S: THE CHAIN SAID ON NOV. 22 THAT IT WILL ADD 900 TO 1,200 OUTLETS A YEAR WORLDWIDE FOR "SEVERAL YEARS"

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CAMPAIGN-FINANCE REFORM? OH, SOMEDAY—MAYBE

Campaign-finance reform is a rock that Congress rolls up Capitol Hill every year, confident that it will never quite make it to the top. In 1992, House and Senate Democrats cobbled together a measure that no one liked very much, and members were anything but crushed when George Bush vetoed it. This year, the House and Senate have passed very different versions of "reform," and the prospects are not good that meaningful legislation will emerge from a conference.

Just before quitting for the year on Nov. 22, House Democrats, on a party-line vote, rammed through a proposal that much of the current campaign law intact. The House did set a \$600,000 ceiling on campaign fund-raising, with total political action committee donations and large contributions each limited to \$200,000. But PACs would still be allowed to give candidates \$5,000 per campaign, certain groups would be allowed to circumvent limits by "bundling" contributions, and the parties could still raise "soft money." And while the House would create a new public-finance mechanism, it didn't bother to find a way to pay for it.

Republicans deride the measure as an incumbent-protection bill. But Democratic leaders say it's all the reform they could get from their followers to swallow. "It's a gesture in stages," explains Speaker Thomas S. Foley (D-Wash.). "If we wanted not to do campaign reform, we would not do it."

LEVEL FIELD. The Senate passed its own, much stronger version of reform months ago. It will likely be months before serious negotiations begin, and reformers say only President Clinton can force Congress to craft a package that would reduce special-interest influence and level the field for challengers. "All the pieces are there, but the President has to sign down his own markers and be involved in it," says Common Cause President Fred Wertheimer.

But while Clinton favors serious change, his agenda is crowded with a health-care overhaul, welfare reform, and other economic-security measures. He lacks the time and political capital for a major fight over campaign finance.

In the end, lawmakers aren't ready to let go of a system

that has kept them in office. Real change will come only when Congress feels more threatened by voter outrage than by the prospect of cutting off the flow of special-interest money.

By Richard S. Dunham

TAKING THE FIRE OUT OF 'CONFIRMATION HELL'

For months, White House Chief of Staff Thomas F. "Mack" McLarty III has been dismayed by the Washington hazarding ritual called "confirmation hell." The pattern is familiar: A nominee is gliding toward Senate approval when an allegation from the past derails the appointment.

McLarty may create a bipartisan study group to explore changes in the confirmation process, including reining in leak-prone congressional staffers' requests for extraneous personal and financial information. To head the study, McLarty would like a pair of greybeards, such as Reagan White House staff chief Howard H. Baker Jr. and former Democratic Party Chairman Robert S. Strauss. But how much credibility do two political good old boys have at a time when voters routinely reject officials' claims of virtue?

Besides, the ugliest confirmation fights are about politics, not nominees' peccadilloes. For example, the nomination of former National Security Council aide Morton H. Halperin to a Pentagon position was killed for this year by conservatives who were settling a score over his opposition to the Vietnam war.

While McLarty's goal of easing partisan warfare is laudable, he might take a look at his own staff. He has just promoted Ricki L. Seidman, a former aide to Senator Edward M. Kennedy (D-Mass.). She played a key role in the ugly battles over the Supreme Court nominations of Robert Bork and Clarence Thomas.

By Lee Walczak

PITAL WRAPUP

THE BUDGET

It took an all-out effort by the White House, Democratic leaders, and liberal groups to kill a bipartisan deficit-reduction package by six votes in the House on Nov. 22. And the message of the vote, on which 57 Democrats broke with their leadership, is that the day of fiscal spending cuts may be drawing near.

The most worrisome development for the Democratic Establishment is the behavior of newer members. Forty of the Democrats who voted for the measure sponsored by Representatives Timothy W. Penny (D-Minn.) and John Kasich (R-Ohio) have come to Con-

gress since 1988. "The new generation has sent a message," says Penny. Future battles could include votes on a balanced-budget constitutional amendment and the line-item veto. Next time around, all the arm-twisting in the world might not be enough to stop the deficit-busters.

SPACE

On Nov. 22, the embattled space station survived one more congressional attempt on its life, but the \$25 billion project's future is getting shakier. NASA's plan to redesign the station as a joint U.S.-Russian effort is part of the problem. Some lawmakers fret that sharing the project with Mos-

cow means it will produce fewer American jobs than promised. What's more, the changing designs and even names for the station are frustrating aerospace companies. "It's hard to muster the support for the station when they can't even get the name straight," grumbles one executive. Publicly, industry support remains strong, but some executives wonder if it might be time to cut their losses. NASA is to come up with detailed plans for the new U.S.-Russian version early next year, and if it doesn't deliver on the promise of work for a lot of aerospace contractors—and jobs in a lot of congressional districts—the station may crash to earth.

MEXICO

FREE TRADE ISN'T COMING CHEAP

Mexico has to take some painful lessons in productivity

Carlos Salinas de Gortari beamed in satisfaction as he handed out awards to Mexico's best exporters at a Puerto Vallarta trade convention. Just 48 hours earlier, the U.S. House of Representatives had approved the North American Free Trade Agreement, and the crowd gave the Mexican President a standing ovation. But even in his moment of victory, Salinas issued a warning: "For the first time ever, Mexico has a deadline for becoming more efficient. There's no more *mañana*."

It's the crowning paradox in the career of the Harvard-trained Salinas, who has turned Mexico's closed, inflation-plagued economy into a global challenger. The phaseout of North American tariffs will draw in billions in investment, and the treaty's passage provides a tremendous boost to Mexican self-esteem. But NAFTA also opens Mexico's most inefficient industries to world-class U.S. competition. That is sure to flatten some Mexican companies as both economies adjust to the reality of integration. And Mexico will start feeling its first NAFTA shocks just as Salinas prepares to name his political heir in the ruling Institutional Revolutionary Party (PRI) for presidential elections next August.

STRAPPED. In a BUSINESS WEEK interview, Salinas admits that adjusting to NAFTA will be tough. He will undoubtedly endure intense pressure to cushion the blows by easing fiscal and monetary policy. Potential casualties of free trade include many Mexican manufacturers. True, big conglomerates such as Grupo Industrial Alfa and DESC have invested millions to train workers and harness new technology in subsidiaries ranging from auto parts to steel. Yet many Mexican companies have done little so far to boost productivity.

These competitive shortcomings may

surprise the many U.S. voters and politicians concerned with NAFTA's effects on the U.S. job market. But Mexican manufacturers are acutely aware of the challenge. Take CYTESA, a Mexico City-based maker of such items as woven straps for bags and suitcases. Some of its looms are 25 years old. Recently, big Mexican customers such as Samsonite have been



rejecting up to 7 shipments out of 20 and demanding higher quality to match imported straps. In a meeting room behind the factory, union official José Ezequiel García Vargas warns workers that if they don't agree to the company's plan to improve quality and productivity, the factory may close. "Until recently, people would buy our product even if it had defects, because with a closed market they had no choice," García Vargas told the workers. "But with NAFTA, you guys will have to hustle."

Company Director Edgar del Castillo

Avila, meanwhile, says he must invest in new technology but can't afford to borrow now at commercial bank rates of 25%. "We'll see good results in the long term, but only if we manage to survive in the short term," he says.

It's not just manufacturers who are at risk. On Jan. 1, when NAFTA takes effect, U.S. and Canadian banks can set up subsidiaries in Mexico to compete with Mexico's technologically backward, service-poor banks, and a major round of layoffs is likely. While the foreign banks are not expected to compete in retail banking at first, they will shake up Mexico's cozy club of bankers, forcing them to reduce loan rates and offer better service to corporate clients.

BETTER WAGES? Retailing also faces a shakeout. Huge Mexican chains such as Cifra and El Puerto de Liverpool, which have formed joint ventures with Wal-Mart and Kmart, will benefit from the

BINDING CONTRACTS? WORKERS AT STRAPMAKER CYTESA NOW HAVE TO UPGRADE THEIR SKILLS

growing buying power of the Mexican middle class. But the thousands of mom-and-pop stores will be unable to compete with the attractively priced imports the big players are featuring.

For workers whose jobs survive the crunch, the promise of better wages is real under NAFTA. Economists had predicted that without the treaty, Mexico would slow down to nearly zero growth in 1994. But with NAFTA, they predict up to 3% growth in 1994, as a flood of foreign and domestic investment offsets the turmoil of restructuring. That will let the government's plan

ow real wage hikes of up to 5% in the
m of productivity-linked bonuses.
As wages rise, however, Mexican com-
panies will have to work even harder. A
recent survey by consultants Arthur D.
Little Inc. of 15 U.S.-owned *maquila*-
ra operations showed that average
wages rose from \$1.58 an hour in June,
1991, to \$2.80 at the end of 1992. Roberto
Batres, president of Little's Mexican
group, sees industrial wages growing to
over \$4.50 an hour within five years. At
that point, he says, companies that have
invested in new technology and
worker training will no longer be com-
petitive with U.S. rivals that pay higher
wages but produce more efficiently.
While companies must take the great-
est initiative, Batres faults the govern-
ment for not investing more in basic
education and training. "The govern-
ment's efforts are very modest so far,"
he says. Many company managers and
officials agree. "All we've seen
are big promises of massive training
programs, but little implementation,"

MA'S MEXICAN WINNERS...

CONSTRUCTION Local firms
will ride the
infrastructure spending

TO PARTS Auto manufacturing
should surge to
meet U.S. and Mexican demand

MAILING Big Mexican chains are
pairing with U.S. retail-
upgrade stores

...AND LOSERS

TEXTILES Most small textile makers
lack needed technology

AGRICULTURE Inefficient Mexi-
can farmers are no
match for large U.S. and Canadian rivals

BANKING Banks face an onslaught
from U.S. firms seeking
state accounts

DATA: BUSINESS WEEK

as Berta Luján, a union leader from
Frente Auténtico del Trabajo.
Salinas, a believer in the power of free
markets, has nevertheless been more ac-
cused of late, cutting interest rates
urged by government-backed credit
institutions and helping small businesses ob-
tain seed capital. With the treaty passed
in Congress, he will need all his political
financial capital to prepare Mexico
for its close embrace with the U.S. and
Canada. Salinas passionately wanted
NAFTA. Now that he has it, he and his
country must learn to live with all its
risks and benefits.

By Geri Smith in Mexico City

A TALK WITH SALINAS: 'THERE'S NO MORE SAYING MANANA'

Mexican President Carlos Salinas de Gortari spoke with BUSINESS WEEK's Mexico City bureau chief Geri Smith aboard his presidential plane on Nov. 19. He discussed the North American Free Trade Agreement and the sensitive political transition now at hand:

Q: What does NAFTA mean for Mexican business?

A: It means that we Mexicans, for the very first time, have a deadline for becoming efficient. The maximum is 15 years, but there are several sectors that will have to undergo a great microeconomic revolution before they can compete in an open market. There is no more saying *mañana*.

Q: But managers of small and midsize businesses say the government is not doing enough to help them.

A: My government has introduced a program called "Impulse" that has aided 250,000 small and medium-size companies. Next year's goal is 500,000. We help them with technical assistance, we help them join together in associations, and we offer risk capital.

Now, public and private banks also have agreed to reduce lending rates by two points. So now that we have much lower inflation and interest rates below 20%, the small businessmen must be very happy.

Q: Some analysts call your program economic Darwinism. Are more Mexican companies going to fail?

A: I am confident that by training workers to increase productivity, and by changing the mentality of businessmen, the companies can prepare themselves. It is true that it will be tough. But it's the only way to do it. If we are capable of competing with the imports already in our market, that means we can penetrate foreign markets as exporters. And that's the only way that Mexico will grow more than 3% to 4% a year.

Q: What do you think of the work President Clinton did to pass the treaty?

A: It was exceptional work politically, of great decision and determination.

Q: Will NAFTA stem the flow of Mexican immigrants to the U.S.?

A: We needed the treaty so that we no longer export people but rather export products. Now, Mexico will grow more, will create more jobs, and fewer Mexicans will migrate to the U.S.

Q: What did you think of the Gore-Perot debate?

A: Look, it was a debate by Americans for the United States. I disagree with many things

that were said. What I can say is that much of the debate carried on by NAFTA opponents shows great ignorance about Mexico. I hope that with the treaty, we'll get to know each other better. In addition to [job] retraining in the U.S., they also need some reeducation about Mexico.

Q: Gore said Mexico's democracy is imperfect. Is that right?

A: I don't think there's a perfect democracy anywhere in the world. I think each country has the responsibility of building its own democratic system. We here in Mexico have a commitment to do that.

Q: Who will be the candidate to replace you as President?

A: I'm also very interested in finding out.

Q: Do you think the PRI will openly choose a new candidate in a nominating convention in the year 2000, as other Mexican parties do?

A: We'll see what they decide at that point. I will be a simple citizen by then.



"FOR THE FIRST TIME, WE HAVE A DEADLINE FOR BECOMING EFFICIENT"

Commentary/by Larry Holyoke

WHY JAPAN'S BUREAUCRATS WON'T BAIL OUT THE NIKKEI

Japanese Prime Minister Morihiro Hosokawa, decked out in a cashmere sweater and scarf, looked natty enough in Seattle as he joined President Bill Clinton and Asian heads of state for a weekend of conversation about economic cooperation. But Japanese investors didn't like what they saw. With Hosokawa making no firm promise to revive the ailing Japanese economy, the Nikkei stock average dived 3.1% when bourses opened on Monday.

Still, it wasn't just Hosokawa's waffling that sent the market into free-fall (chart). Although many investors hope the Finance Ministry will ride to their rescue once again, the powerful bureaucrats have steadfastly refused to block the Nikkei's dive as they did with their "price-keeping operation" last summer. Even though the Nikkei has dropped 13% since Oct. 26, Japan's economic regulators seem determined this time around not to let investors and corporations forget the frequently repeated message that the easy-money days of the 1980s are long past. So the regulators now seem prepared to sit tight, perhaps until the fiscal year ends next March, even if such inaction means putting the economy on its knees.

PROFIT SQUEEZE. That risk is large, and it is growing daily. On Nov. 22, the government disclosed that its index of leading economic indicators fell to 36.4 in September from 50 in August. Household spending for the month, meanwhile, was off 1.7% from a year ago, its fifth straight decline. And many think corporate profits will be down 10% or more by the end of the fiscal year.

The squeeze on profits could even prompt big corporations to start making genuine layoffs, marking the first big crack in their venerable lifetime-employment system. Some bureaucrats think the stock market's drop is just the shock Japan needs to bring serious cost cuts about. "The faster the drop,

the better," says Ryoza Hayashi, director of the Ministry of International Trade & Industry's General Affairs Div., his hand swooping down as he traces a diving Nikkei.

Finance Ministry officials are taking a similar line. They argue that Japanese banks must move swiftly to clear their books of perhaps \$400 billion in bad loans, even if that results in a seriously weakening stock market. In



OSAKA TRADERS: THE MARKET'S DROP COULD PROMPT BUSINESS CUTBACKS

fact, sometime around August, the ministry quietly lifted its earlier unofficial "guidance" suggesting that bankers refrain from massive stock sales to cover losses incurred from write-offs and additions to bad-debt reserves.

The banks appear to have acted quickly on this policy shift: The respected daily *Nihon Keizai Shimbun* estimates that banks took some \$5.6 billion in profits when the market was stronger a few weeks ago by selling stocks. Although the banks typically bought the shares back to retain long-term business ties, the profits they booked from the sales will help them maintain their dividends even as they take a \$13 billion earnings hit in order to cover bad loans.

The ministry's poli-

cy shift was born of necessity. Alico Ogawa, financial analyst at Salomon Brothers Asia Ltd., thinks that financial bureaucrats had wanted to keep banks more or less in line with each other, that each would deal with about the same amount of bad debts each year. But then, she says, the bureaucrats started to realize that the true magnitude of the problem loans at some banks was much larger than they expected.

Worried that the lending mess could tip up the banks—and lending—for years, the officials began telling the bankers, in effect, to do whatever it took to clear their books within two or three years. That apparently started the banks racing to sell their stocks.

A RESCUE? Despite the tougher new stance from MITI and Finance, the betting in Tokyo is that the bureaucrats are not totally out of the game. At its Nov. 1 close of 17,384, the Nikkei is still well above last August's low of 14,309. And in any case

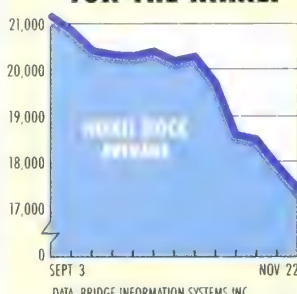
it's the Nikkei's level next Mar. 30 that really matters. That's when banks have to revalue their stock-market portfolios as they close their books for the fiscal year.

If things are still looking gloomy then, the Finance Ministry may yet change its tune and mount another rescue operation. But don't expect much action now. The keepers of Japanese economic policy are clearly more willing to let market forces inflict pain for the sake of encouraging long-term re-

forms. That approach might well mean that the country will emerge stronger in a year or two. But in the meantime, worried Japanese will be in for plenty more sleepless nights.

Holyoke covers Japanese financial markets from Tokyo.

A STORMY FALL FOR THE NIKKEI



A DHL delivery boat is shown on a narrow Venetian canal. Two DHL employees in red and white uniforms are on the boat, which is loaded with DHL boxes. A gondolier in a black outfit is steering the boat, and a passenger wearing a straw hat is visible. In the background, there is a stone bridge with a decorative railing and historic buildings with green shutters.

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WILL YELTSIN GET THE PARLIAMENT OF HIS DREAMS?

As with many things Russian, the campaign to choose a new Parliament is turning gloriously chaotic. Thirteen parties are fielding more than 1,800 candidates. They have had time to formulate clear platforms or even print posters. Voters are confused. "Pensioners call me every day and ask what words like 'majority' mean," says Viktor Koshygets, an editor at the *St. Petersburg News*.

Yet the Dec. 12 contest will have huge implications for Russia's future. To push ahead market-oriented reforms, Russia badly needs to break out of its ideological deadlock. It needs a legislative body that can crank out coherent laws on everything from property ownership to foreign investment. The previous Parliament's obstructive stance led to its dissolution by President Boris Yeltsin, culminating in the bloody showdown on Oct. 3-4. Yeltsin is replacing the old Parliament with a U.S.-style upper-lower house legislature that he hopes to do his bidding.

But even if the parliamentary election does not turn out to his liking, Yeltsin will see his power greatly increased. At the same time they vote for Parliament, voters will also ratify a new constitution. It gives Yeltsin authority to appoint key officials including the central bank chief. He will be able to dissolve Parliament if it misbehaves. So Yeltsin, who has gone back on an earlier pledge to stand for reelection in June, looks reasonably safe until his term ends in 1996.

But Yeltsin's program would get a key boost if kindred spirit win the balloting. While polling results vary enormously, Russia's Choice, a pro-free-market party headed by Deputy Prime Minister Yegor T. Gaidar, the chief architect of Yeltsin's shock therapy, seems to be leading the pack. Gaidar's group is the best financed and best organized of the 13 contenders. Analysts predict that Russia's Choice and similar parties,

including the Democratic Party of Russia and a group headed by economist Grigori Yavlinsky, will dominate the 450-seat Duma, or lower house, and the 176-seat upper chamber.

But lately the reformers have seemed to be losing ground. There is a possibility that Yeltsin could end up with a split Parliament similar to the one he sacked. The Communists, led by Gennady Zuzanov, show surprising strength in polls. No longer banned, the Communists have scored points by blaming 20% monthly inflation and rising unemployment on such Gaidar programs as price liberalization and privatization.

Gaidar now fears that the Communists will gang up with the Agrarian Bloc, a farm bureaucratic group, to block market reforms and reintroduce parts of the old Soviet economic system.

CRITICAL CONSTITUTION. The race is close enough that Gaidar and Yavlinsky are pandering to nationalist sentiments. In a flip-flop, they now back a Yeltsin decree blocking 9 of the 12 currently licensed foreign banks from doing business with Russians until 1996. This move has shocked foreign bankers who expected better treatment from Yeltsin once he crushed Parliament.

Yeltsin's answer to legislative uncertainty is of course the new constitution. While reformers, such as St. Petersburg Mayor Anatoli Sobchak, a Duma candidate from the Russian Movement of Democratic Reforms, are critical of the document, they still argue for supporting it. "Otherwise, we will have to live according to the old Brezhnev constitution," says Sobchak. "That would be very dangerous for democracy." The implication may be that Russians are so apathetic and their political parties so divided that they realize they should leave the big decisions to an increasingly powerful Yeltsin.

By Peter Galuszka in Novosibirsk and Patricia Kranz in St. Petersburg



GAIDAR: HIS RUSSIA'S CHOICE PARTY SEEMS TO BE IN THE LEAD

OBAL WRAPUP

VEZUELA: REFORMS IN TROUBLE

Populist campaign rhetoric is jeopardizing prospects for free-market reforms and economic recovery as Venezuela's tight presidential race heads toward the Dec. 5 election. Political divisions are running so deep that former President Ramón Velásquez recently summoned military chiefs, political leaders, and top businessmen to a meeting and had them pledge to honor election results.

The four-way contest is tight. The winner is likely to eke out only a slim plurality. Such a close vote, observers warn, could trigger violence. A narrow victory—together with the antigovern-

ment mood among voters, who are fed up with corruption and political machinations—may also leave the winner without a mandate to take the tough measures the ailing economy needs.

Running slightly ahead in opinion polls is former President Rafael Caldera, 77, who advocates a strong state role in the economy—contrary to the trend in most of Latin America toward government downsizing. He is making populist appeals such as a pledge to remove the recently imposed value-added tax, which is needed to compensate for falling oil revenues. Although Caldera founded the right-of-center Christian Democratic COPEI Party, this time he's running as an in-

dependent with support from an array of small, mostly leftist parties.

COPEI Party standard-bearer Oswaldo Alvarez Paz, a free-market advocate backed by business, is running second in the polls. But Bolívar State Governor Andrés Velázquez, a former labor leader with a spread-the-wealth program, is a strong third, with wide support among Caracas slum-dwellers.

Analysts argue that if Caldera wins, he will have to turn to free-market policies as the only solution to Venezuela's ills. But such a reversal could risk voter backlash. If Alvarez Paz wins, he would try to push for free-market reforms. But he could face resistance in a fragmented Congress.

THE SONS ARE RISING IN THE EAST

Meet the generation that will lead Chinese-speaking Asia into the future

The father makes the money, goes the Cantonese proverb, while the son spends it. A nice old saying, but for many overseas Chinese tycoons a different adage seems to apply: The father makes the money, while the son works hard to make even more.

Consider 27-year-old Richard Li, who studied economics and computer engineering at Stanford. He developed the Star-TV satellite network for Hutchison Whampoa Ltd., the holding company of his father, billionaire Li Ka-shing. Last summer, the company sold Star-TV, which broadcasts five channels across Asia, to Rupert Murdoch's News Corp. for a staggering \$525 million.

Or take Ronnie C. Chan, 43, who lived for 16 years in America and got his masters in business from the University of Southern California. After the death of his father, T.H. Chan, in 1986, he inherited one of Hong Kong's mightiest property companies, the Hang Lung Group. Far from running it into the ground, he has aggressively expanded its real estate business in Hong Kong and China. The group's current market capitalization: \$6 billion, up from less than \$1.7 billion in late 1990, right before Chan became chairman.

PRODIGAL SONS. Li and Chan are just two of the scores of overachievers gradually gaining control over the business empires of their fathers. Often educated abroad, this new breed is quietly incorporating professional management techniques, financial expertise, and technological savvy into their family companies. "The kids are saying, 'Dad, it's time to do things differently,'" says William H. Overholt, managing director of Bankers Trust Co. in Hong Kong.

Certainly, not all of these fortunate sons turn out to be excellent managers of family enterprises. Indonesian-Chinese mogul William Soeryadjaya, founder of P.T. Astra, a billion-dollar, heavy-industrial conglomerate, was forced to surrender control over the company earlier this year because of poor business decisions by his son, Edward. And Thomas Fok, son of Hong Kong-based real estate tycoon Henry



Fok, was charged in 1991 with trying to bring 15,000 AK-47 rifles into the U.S. without a license. He eventually served a six-month sentence and paid a fine of \$100,000.

But black sheep aside, most of the tycoons' sons are levelheaded businessmen intent on preparing their family businesses for the 21st century. Chan, for example, relies on his knowledge of East and West and his fluency in English, Cantonese, and Mandarin to "unscrew my [Chinese] head,

RONNIE C. CHAN
AFTER 16 YEARS IN THE U.S., HE CAN "UNSCREW MY CHINESE HEAD AND SCREW ON MY AMERICAN HEAD"

put it in my briefcase, and screw on my American head" whenever need be.

When he's in American mode, Chan tackles the challenge of turning Hang Lung Group into a modern corporation without losing its entrepreneurial spirit. For instance, Chan is finding jobs that play to the strengths of his father's loyal staffers rather than their weaknesses. "We're not Americans who just fire people left and right," he says. "But be assured: If some people are not good, they will no longer be."

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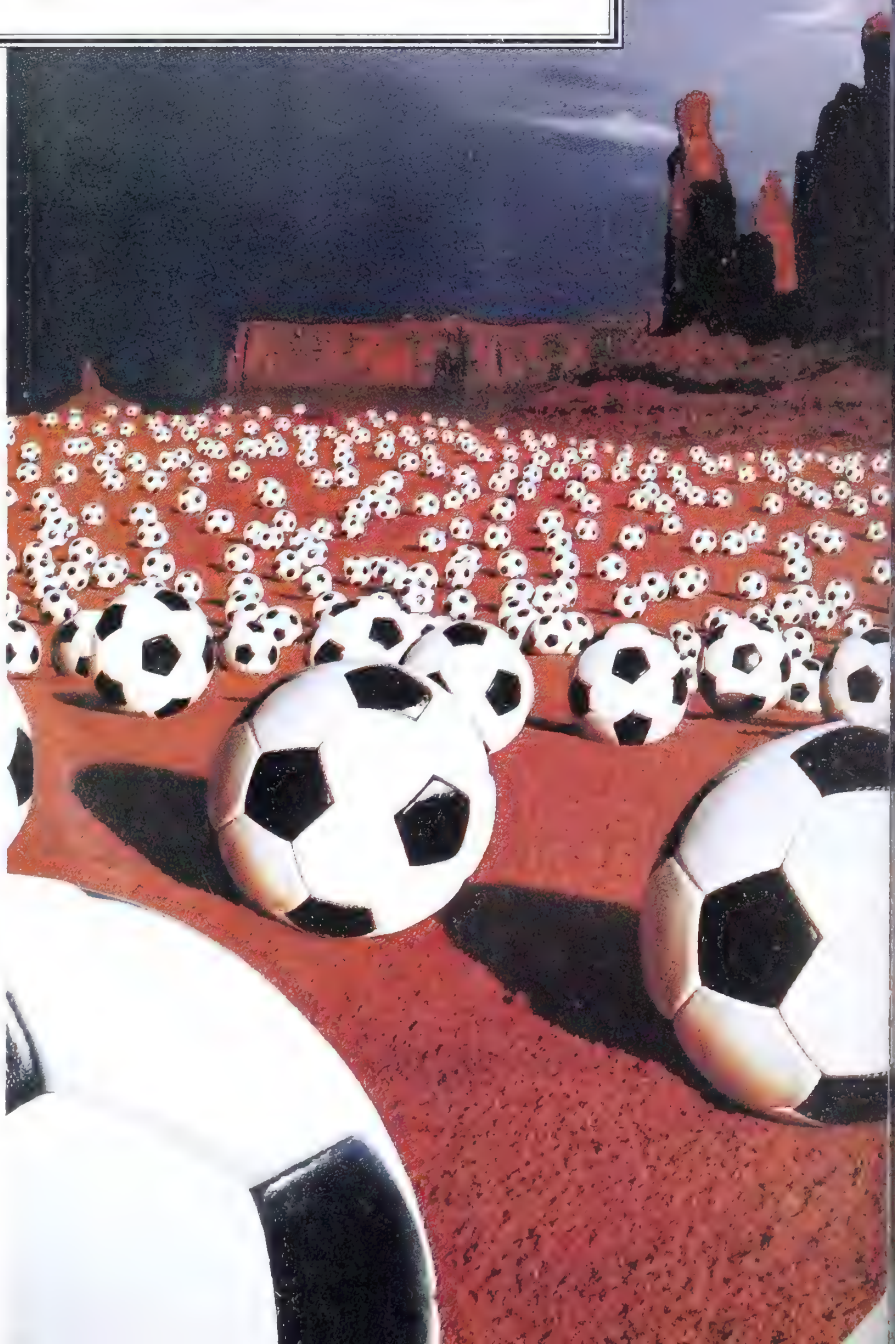
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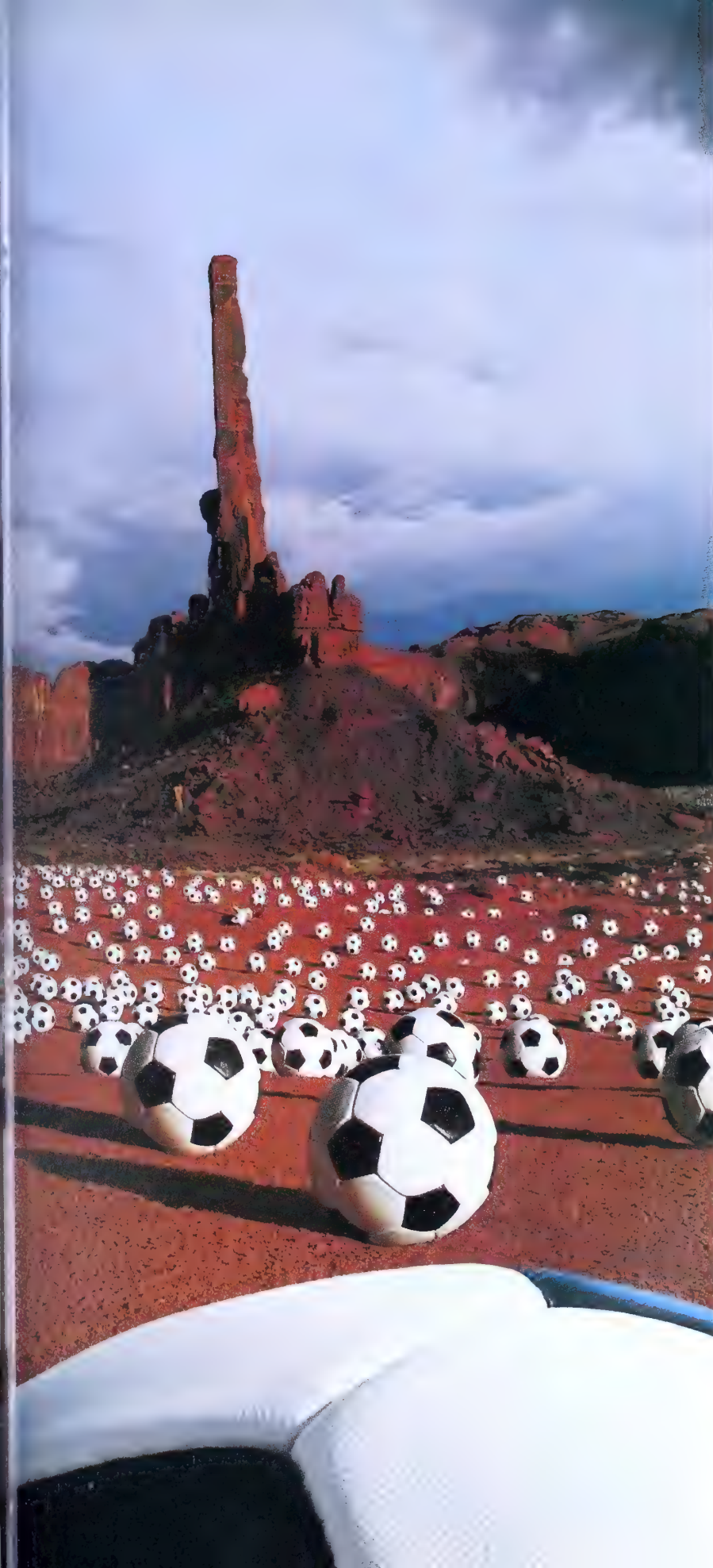
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People

in a position of importance."

The new generation is also more open to exploring new ways to raise funds to expand their business. Chan, for example, just raised \$300 million by issuing convertible preferred shares. The older generation, leery of debt, would shy away from such offerings.

That is all quite a contrast from the old-fashioned overseas Chinese conglomerates, often founded by men who learned their business skills by surviving chaos and war in China and Southeast Asia. Mindful of how fast fortunes could vanish in those tumultuous times, most tycoons of the older generation value such tangible assets as real estate and eschews long-term planning. Looking for quick deals that can raise cash, they operate on instinct, call all the shots, and value loyalty more than skills in their employees.

"SHARED VISION." Having prospered from Asia's boom times, however, these companies have grown far beyond original expectations. So the first generation is leaving behind sprawling conglomerates that can no longer be micromanaged by a single leader. When Peter Kwong-ching Woo succeeded his father-in-law, the shipping magnate Sir Y. K. Pao, as head of the family empire in 1986, the Columbia MBA inherited a huge but secretive company that was largely closed to the outside world.



STEPHEN RIADY
THE 33-YEAR-OLD HEIR
TO INDONESIA'S LIPPO
BANKING EMPIRE SEES
RICH OPPORTUNITIES
IN CHINA

So Woo, 47, took Wharfedale Holdings and made it into a modern corporation. He systematically marketed its extensive but ill-used property portfolio. Woo also decentralized management of the company's 18,000 employees worldwide. "How can I manage a hotel in New York?" he says, referring to the company's Omni hotel group in North America. Meanwhile, back in Hong Kong, he has forged a management team with "a shared vision" of the company's future in hotel and property management as well as telecommunications.

Richard Li, meanwhile, is borrowing from American and Japanese management the idea of research and development for the long term. While remaining vice-chairman of Hutchison, he is forming his own Pacific Century Group, a startup devoted to adapting the latest technologies in telecommunications and health care for use in the Asian market. The young Li even makes a startup admission about the Star-TV sale by his father's company: "If I were the investor, which I wasn't, I would have kept it."

RICHARD LI
HIS FOCUS ON
R&D AT PACIFIC
CENTURY GROUP
REFLECTS A
LONGER-TERM
VIEW THAN THAT
OF THE OLDER
GENERATION

Holding on to Star for the long haul would have guaranteed Hutchison a dominant position in Asian media, he explains, even though the venture would have lost bundles initially. Instead, Hutchison

opted to give shareholders a quick turn on the investment by selling ly.

Some old-timers, of course, wonder if these new-fangled business practices are they're cracked up to be. Gordon S. Wu, 57, managing director of Jewell Holdings Ltd., says he'll cut a deal with other members of the Chinese simply based on their good word. "The young ones do not honor tradition," laments Wu, whose company has a market capitalization of \$5 billion. "We don't use lawyers, we use a simple handshake. They use all the fine print." But Mr. Woo says he's not about to sign a gabfack deal without reading the contract details. "Personal friendship," he says, "should not be confused with a business transaction."

CHING OUT. Yet unlike their fathers, these second-generation tycoons increasingly must work outside the closet world of overseas Chinese. Chan, for example, has hired management consultants in the U.S. and Europe to oversee his private company, Morningside Group, which seeks investments far from Hong Kong. In the U.S., Morningside owns the largest centrally monitored home-security-device company, for example, while in France it runs the country's largest wholesale auto-parts company.

But the sons are not ignoring their ancestral home either: Many see the best opportunities in China itself. In Hunan province, Hong Kong-based Lippo has a deal with the local government to develop a 25-square-mile tract around a deep-water port, power plant, industrial estate, and tourist complex. "They are giving land to us almost free," says the U.S.-educated Stephen J. Riady, 33-year-old chairman of Lippo Ltd. son of Mochtar Riady, founder of Indonesia's Lippo banking empire. Likewise, Morningside Group is buying into printing and packaging companies throughout China, with plans to put them up in a major corporation someday. "I take a long-term view of things," says Chan.

As they take that view, it's obvious that ambitious heirs like Chan, Li, Riady, and Woo will be at the heart of deciding how Asia manages its wealth and where that wealth is deployed. No one claims they will lose touch with China or the Chinese way of doing things. In fact, members of the new generation are content that they will be the ones who help Chinese-speaking Asia attain its rightful place in the world. But to do that, they recognize that they will have to borrow some Western financial contacts and management techniques. In that sense, they hope to combine the best of both worlds.

By Joyce Barnathan in Hong Kong

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HITACHI

ON THE ACQUISITION TRAIL

Steep costs have resorts consolidating—but do skiers win?



Travel consultant Carolyn S. Bakar of Raymond & Whitcomb Co. in Boston sends skiers to resorts all over the country. So why is she so eager to book clients into Breckenridge and Keystone this year?

Simple. The two Colorado resorts, just 17 miles apart, merged in April, and skiers can now use one ticket to schuss both. Besides being able to split time between the Victorian town of Breckenridge and modern Keystone, skiers can take advantage of the pair's staggered hours (Keystone offers night skiing) and stay on the slopes for up to 12 hours a day. Says Bakar: "With a whole bunch of people at different levels of ability, they stay at one place but ski where it's suitable."

ENERGIZER BUNNY. With costs of everything from snowmaking to workers' compensation going up and with the number of U.S. skiers leveling off, Keystone Resorts Management Inc.'s strategy is growth through acquisitions. By buying Breckenridge for \$90 million, "we're getting significant synergies and cost savings," says Brian D. Smith, executive vice-president for resort operations. Smith is consolidating the marketing and accounting departments of Keystone Resorts, which is owned by Ralston Purina Co., and will begin joint promotions of such events as ski races.

There will be corporate synergies,

too: Breckenridge will join Keystone on the back of Ralston Purina cereal boxes and may well be visited by Ralston's Energizer Bunny. Next year, Ralston will package Keystone, Breckenridge, and a smaller day area, Arapahoe Basin, with its cereal and cracker subsidiaries into a new company that will be spun off to shareholders.

Keystone, whose three areas racked up 2.5 million skier-days last year, is now the largest U.S. ski conglomerate, but it's hardly alone on the hill. S-K-I Ltd., which owns Killington in Vermont, started the trend in 1977, when it acquired Mt. Snow, Vt. It now also owns Bear Mountain in California and has imminent plans to acquire Pico, a small resort adjacent to Killington. And S-K-I, the largest operator on the East Coast, with 1.9 million skier visits last year, holds an option to buy Haystack, next to Mt. Snow, and is eyeing a Canadian resort.

Out West, Kamori Kanko Co., a Japanese operator with resort holdings all over the world, bought Colorado's Steamboat in 1990 for about \$110 million and Heavenly Valley in California in 1991 (no price available).

Vail Associates Inc., which also owns nearby Beaver Creek, will buy neighboring Arrowhead early next year for an undisclosed price. And Aspen Skiing Co., which already owns three Aspen-area resorts, expects to add a fourth, Aspen Highlands, this winter.

"The trend is going to accelerate," predicts I. William Berry, editor of *Ski Industry Letter*. "Some areas are hanging right on the ropes." In 1990, there were 845 ski areas in the U.S. Last year, there were 529.

UPHILL RACE. During the 1970s, resorts saw skier visits grow at double-digit rates, and their biggest worry was expanding fast enough to accommodate demand. But the hot dogs of yesteryear are getting gray around the headballs and packing a few more pounds under their parkas. In the 1960s, 70% of skiers were under 35, according to a Ralston Purina report. Today, only 50% are under 35. With families and mortgages, baby boomers ski less. And when they do go out, they demand costly amenities such as high-speed lifts, which ski operators are hard-pressed to provide in today's business climate.

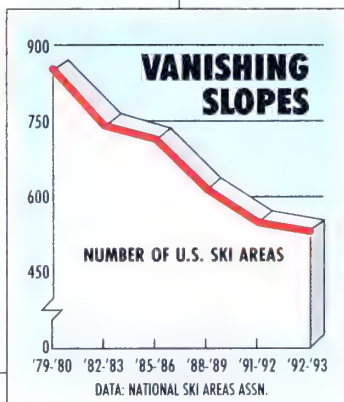
Moreover, the cost of fighting environmentalists who want to stop development is causing undercapitalized areas to disappear like snowflakes in July. "Midsize areas can't pay it," says Berry. "[Environmentalists] have made the word safe for the \$40 lift ticket."

The demise of inexpensive small and midsize areas is sending a chill through the industry, since they act as feeder teams for major resorts. "You learn to ski close to home. Asking someone to come to Colorado and spend a lot of money on a sport they've never tried is like having to go to Hawaii to learn to play golf," says Keystone's Smith.

So, operators see acquisition as healthy for the industry. And skiers see the improvements that well-heeled operators bring to small resorts. Aspen Skiing, for instance, will spend \$35 million over five years to upgrade Highlands.

There's a hitch, however: Skiers who paid \$30 for a lift ticket at Aspen Highlands last year will have to pay up to \$46 for a ticket good at all four Aspen areas. Still, faced with a choice between pricier tickets and shuttered ski areas, most skiers will put up the money before they pack away their skis.

By Sandra D. Atkinson in Keystone, Colo., and Mark Maremont in Boston

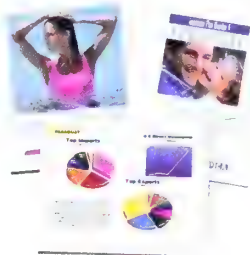




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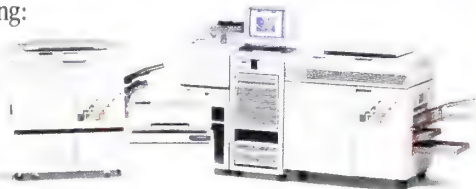
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MIRACLE CURES MAY BE IN YOUR CELLS

Biotech's new frontiers: Cell therapy and tissue engineering

From the ancient Aztec to the modern Navajo, many cultures have saved the umbilical cords of newborn babies to use in rituals. If a young company called Biocyte gets its wish, parents in the U.S. soon may embrace a similar rite—potentially with lifesaving consequences. In November, Biocyte said that for \$1,500 plus \$75 a year, it will freeze and store three ounces of "cord blood" cells extracted from umbilical cords of healthy infants, initially those born at Magee-Womens Hospital in Pittsburgh. If later the child, or a close relative, is afflicted by cancer or other serious disorders, these matched cells could help carry a cure.

It's too early to tell how willing parents will be to pony up. But Biocyte's service is an early indicator of a radical approach to medical treatment that could become common. Called "cell therapy" or "tissue engineering" this new technology springs from dramatic gains in understanding the body's immune system and the role of cells in disease. A dozen small

biotech companies are using this new knowledge to pioneer novel ways to handle, manipulate, and deliver human and animal tissues and cells in the body to fight a wide range of ills.

One red-hot area of such research involves stem cells, the lynchpin cells of the immune system that are plentiful in cord blood. They promise to be useful in treating cancer, and ultimately genetic ills. But the action doesn't stop there. Some companies are growing sheets of skin. Others are trying to cre-

CELL THERAPY'S POTENTIAL

Biotech companies are trying to treat disease by transplanting specific cells and tissues that they have engineered in the lab. Here are six approaches and the companies involved.

1 Organogenesis, BioSurface Technology, LifeCell, and Advanced Tissue Sciences (ATS) are using cells from sources such as newborns, patients, and cadavers to grow skin for repairing burns and other wounds.

ate a wide variety of "universal" cell that can be transplanted without fear of rejection. Still others are transplanting into the brain and spinal cord cells that ooze useful neurological proteins. Some researchers are even trying to grow organs in petri dishes. This work promises to be expensive and will face thorny regulatory thickets. But it will continue because "the need for this work is so apparent," says Gail Naughton, CEO of Advanced Tissue Sciences Inc. (ATS) in La Jolla, Calif., because these treatments address horrible conditions such as organ failure, or severe burns that are now inadequately treated.

Such approaches aren't without precedent. Blood has been banked and transplanted for decades, and whole organs have been transplanted since the 1960s. Research into the curative power of fetal cells was making headway until a sudden lifted moratorium imposed by the Reagan Administration. But much of what is happening today goes way beyond the progression of transplant research.

The concept behind cell therapy and related techniques is that perhaps our cells are smart enough to correct certain defects in the body. Cells are the engines and brains of many processes. They metabolize nutrients to create energy, pack together to form skin and organs and vital fluids, and manufacture the myriad hormones, enzymes and other chemicals humans need to survive. Most illnesses occur when these engines break down in some way because of injury or infection, spew harmful proteins, wear out, or grow unchecked, as happens in cancer. Drug work by prompting desirable changes in cells—such as turning off bad ones. But finding an agent that doesn't cause side effects or disrupt other processes isn't easy.

NO BLOCKERS. The biotech industry was founded on the premise that isolating single proteins made by cells, then genetically splicing them to create large quantities would lead to better drugs. Genentech Inc.'s human-growth hormone, for example, replaced a natural hormone that some children are missing, and works well.

But such successes have been relatively rare, in part because plucking single, useful proteins out of the body's complex broth is extremely difficult. It's a bit like sending a football team comprised of all-American quarterbacks on to win a game—with no receivers or blockers. But cell therapy may let scientists accom-

h the same goals of healing or replac-
cells without micro-managing the
cess. "Cells have the software to do
ut we have yet to learn," says Joh-
h P. Vacanti, a leading tissue engi-
r and Harvard Medical School re-
cher.

roponents of cell therapy point to
nd-healing, where gene therapy com-

2 Cytotherapeutics

is encapsulating
adrenal cells from cows in
special polymers inserted in
the base of the spine to treat
chronic pain. Eventually, it
hopes to implant similar
capsules in the brain to battle
Parkinson's and Alzheimer's.



es have so far failed to generate
s based on the isolation of individu-
rotein "growth factors," which stim-
e cells to grow. Says Cynthia Rob-
Roth, a PhD biochemist who edits
biotech newsletter *BioVenture View*:
rybody has been spending hundreds
illions of dollars to isolate things
don't work well in isolation." By
ast, companies such as ATS, Organ-
esis, BioSurface Technology, and
Cell are testing skin replacements
o that. Most of these products are
of cultured human dermal or epi-
ial cells that can be transplanted
make their own growth factors in
the right amounts. The products
great promise in healing burns
other stubborn wounds.

WOUND HEALING. BioSurface Technol-
Inc. of Cambridge, for instance, is
g sheets of epidermal tissue made
king a postage-stamp-size piece of a
nt's own cells and expanding
ten thousandfold—enough to
an entire body. Meanwhile,
BioSurface, and Organogene-
e developing other skin-cover-
roducts based mainly on cells
"fibroblasts" taken from neo-
foreskin, a discard from cir-
cisions. From one foreskin, ATS
row over 1 million four-by-six-
sheets of dermal skin to treat burns
ounds. "Wound healing is such a
ex medical problem, no one knows
factors, in what amounts, over
time," can hasten it, says BioSur-
chief Executive David L. Castaldi.
the cells are programmed to pro-
various factors so we don't have to
er those questions."

gineered human-skin products are
rthiest along in human testing and
be the first engineered tissue to
Food & Drug Administration ap-
l. But numerous other products
echniques are close behind. At

Boston's Children's Hospital, in a lab en-
vironment designed to mimic the human
body and trick cells into growing natu-
rally, Vacanti hopes soon to begin build-
ing transplant ears, noses, and other fa-
cial features out of human cartilage cells
seeded on a polymer mold and grown
into the proper shape. Using technology
he has licensed to ATS, Vacanti already
has grown cow cartilage around
special polymers in the shape of a
full-size human ear and implanted
the ear beneath the skin on the
back of a mouse. The skin grows
over the structure in 12 weeks and
naturally attaches to the ear. This
technology could be used to fix ge-
netic facial defects or to repair fa-
cial features damaged from acci-
dents or cancer radiation therapy.

Far more commercially impor-
tant is the attempt by Vacanti and
others to grow the cartilage that makes
up the meniscus, or lining of the knee.
In the U.S. alone, 1.4 million patients a
year could benefit. Doctors today can
do little but remove damaged cartilage
and eventually replace the knee. Organ-
ogenesis is working on engineering colla-
gen scaffolds on which to grow skin
cells, or fibroblasts, that could become
replacement tendons and ligaments. Also
in the lab, in a petri dish, Vacanti is
trying to grow pieces of a human liver
that could someday be transplanted to
provide relief from certain liver diseases
or as a bridge until entire livers, which
are always in short supply, can be lo-
cated.

In Europe, meanwhile, researchers
are using cells from cow adrenal glands
encapsulated in special polymer tubing
made by Cytotherapeutics Inc. in Provi-
dence. In a small number of patients
in whom the cells have been implanted



3 ATS and BioSurface are
trying to grow cartilage
for use in orthopedics
and for repair of nose
and ear tissues.

at the base of the spinal cord, the treat-
ment appears to relieve severe pain.
The key is that the membrane lets de-
sired proteins exit while shielding the
cells from the body's destructive im-
mune response.

Next, Cytotherapeutics hopes to at-
tack Parkinson's and Alzheimer's with
animal cells wrapped in membranes,
then inserted in the brain. CEO Seth A.
Rudnick says the membranes should
make it possible to mainly use animal
tissues, which are easier to get and ma-
nipulate than human ones. The company
has also supplied the encapsulation tech-

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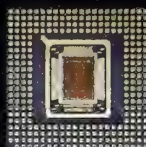
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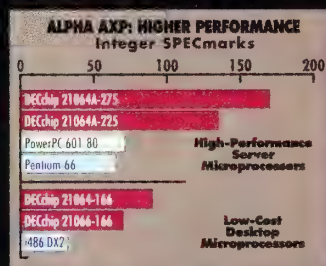


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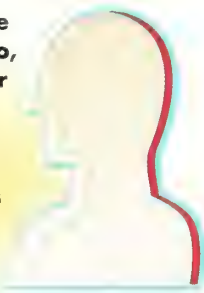
nology to researchers transplanting insulin-producing cells in diabetics.

At Cell Genesys Inc., Foster City, Calif., researchers are trying to create so-called universal donor cells by genetically wiping out the regions on various cell types that mark a cell as belonging to a specific individual. If this research pays off, it could lead to an array of transplantable cells that could simply be pulled off the shelf to treat everything from eye damage to cancer—bringing an end to the need for donor-matching.

Companies that see gene therapy as the future of medical treatment are paying close attention to cell therapy—because stable, manipulatable cells will be needed to transfer genes into patients.

4 Applied Immune Sciences, CellPro, Systemix, and Baxter

are growing crucial stem cells in the lab so doctors can reestablish immune systems in cancer patients after radiation or chemotherapy.

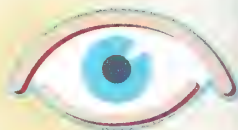


Drug maker Sandoz Ltd. paid \$392 million in 1991 for 60% of Systemix Inc., a Palo Alto (Calif.) company that's working with stem cells for use in cancer treatment and gene therapy. And Baxter International Inc.'s biotech group is looking at several cell and gene therapy approaches aimed at cancer, diabetes, and hemophilia.

Still, there's plenty of uncertainty over just how cell-tissue engineering companies will make money. Will they sell a product or a service? Will the procedures be practical? How will they be regulated by the FDA, whose commissioner, David A. Kessler, recently published a paper in the *New England Journal of Medicine* giving notice that the industry will be subject to tight scrutiny by his agency.

Company products could be variously regulated as devices, drugs, or not at all, if the product is the patient's own cells or a straight transplant. "They've got something here, but I'm unwilling to bet on a startup company that has to figure out all this biology and establish a service business," says a

5 Scientists working with **BioSurface** are trying to grow corneal stem cells that may be used in eye repair. **Cell Genesys** is working on "universal" retinal cells that can be used in any patient.



prominent Wall Street biotech bank.

To get an idea of how multifaceted business strategies can be in this field, look at what's happening with stem cells. The stem cells that give birth to all the cells of the immune system primarily reside in the bone marrow. For some years now, physicians have used bone marrow transplants to fight some forms of cancer. First, they use chemotherapy to wipe out cancer cells—and typically the bone marrow with it. They then transplant donor marrow to restore the patient's immune system. The trouble has been that bone marrow also is loaded with T-cells, which can trigger a rejection response and render the treatment ineffective.

Studies have shown that the fre-

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ON THE STREET

le stem-cell populations are from T-cells when given to cancer patients, the toxicity appears to be associated with the transplant. How does a company profit from all this labor-intensive work? Companies such as CellPro, Baxter, Systemix, and Applied Immune Sciences all have technologies designed to pick out stem cells from the bone marrow and, increasingly, from circulating blood. But CellPro in Bothell, Wash., supplies researchers and companies with equipment to separate out stem cells. Its system could be combined with cord blood stored by Biocyte, for example, to pluck out cord-blood stem cells, which not only can obviate the need for donor marrow but also seem well-suited to deliver genes in gene therapy, for reasons scientists don't yet understand. Applied Immune Sciences Inc. and Systemix Inc., meanwhile, are building service businesses around stem cells by catering to individual patients. In an industrial park near San Francisco airport is what Thomas B. Okarma, chief executive of Applied Immune Sciences in Santa Clara, Calif., calls a "hospital for cells." In sterile cleanrooms, technicians are processing blood flown in from AIDS patients in Los Angeles. In a clinical trial, they're testing whether they can bolster patients' immune systems by filter-

ing out infection-fighting white blood cells, multiplying them by adding the growth factor Interleukin-2, then shipping them back for reinfusion in patients. Earlier this year, a similar procedure for kidney cancer patients showed remissions in about one-third of those tested. AIS plans to try the same process for using patient stem cells as a substitute for bone-marrow transplants. Ultimately, Okarma believes AIS can add

6 Organogenesis, BioSurface, ATS, and startup Osiris are developing cartilage, tendon, ligament, and bone products to treat knee injuries.



gene insertion into its current cell treatment process and enable more efficient gene therapy.

Systemix, too, is setting up special centers to process patient stem cells out of circulating blood. Systemix CEO Linda D. Sonntag says advances in gene therapy are moving so quickly that she expects the company will work on using stem cells as a vehicle for gene therapy as its next frontier.

Since most companies are still in the testing phase, few will estimate publicly what they expect the costs of such treatments to be. Bet on this, however: They'll be expensive. So far, cell therapy companies have been careful to target maladies for which other treatments are nonexistent, inadequate, or so expensive that almost anything would be an improvement. Standard bone-marrow procedures today can top \$150,000, for example, and the cost of treating severely burned patients, including hospital stays and multiple surgeries, can exceed \$200,000. One thing all the companies say they'll do is build cost-effectiveness criteria into their trials. Says ATS Chief Executive Arthur Benvenuto: "If we can't show a cost-saving on the day of launch, we'll scrub the project."

No matter what they cost, these technologies are part of a bet on the head-spinning pace of science. In some cases, interim techniques will be leapfrogged by gene therapy; others will develop into cells and organs that can be ordered off the shelf. But even today, one unspoken premise at Biocyte is that advances in the next decade will provide uses that don't exist today for cells harvested from umbilical cords.

By Joan O'C. Hamilton in San Francisco



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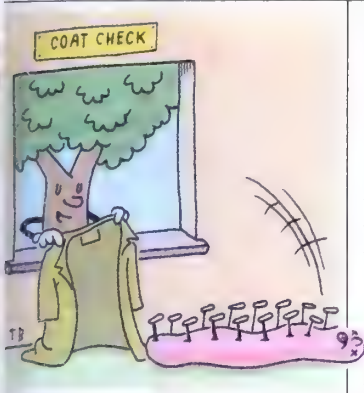
Employee retention, continuity, and safety have been dramatically improved. Fact is, Siecor gave Olsten their top kudos. Their Total Quality Award.



Developments to Watch

ED BY RUTH COXETER

TREE GROWS IN INDIA—AND IT'S A BIOTECH WONDER



In Indian villages, the neem tree—a member of the mahogany family—is a 24-hour pharmacy. Its seeds, bark, and leaves are used to treat everything from warts to malaria. The neem tree also repels insects from crops, and that feature has biotechnology companies excited. U.S. scientists have isolated one chemical, azadirachtin, that kills insects

their larval stage, when they are most destructive. After a larva sheds one coat, the chemical prevents it from growing another. Formulas are being marketed by Salt Lake City-based AgriDyne Technologies Inc. and by W. R. Grace & Co. of New York to protect cabbage, cotton, lettuce, tomatoes, and other crops.

That's not the end of the neem story. Both companies are looking into other neem compounds that might turn back enemy insects. They're also screening other plants in cooperation with ethnobotanists, who study how native peoples use plants for food and medicine.

'HEART HOLOGRAM' THAT HELPS DOCTORS SPOT DEFECTS

Cardiologists have a less than ideal way to look at someone's heart: ultrasound systems that produce flat, two-dimensional images. But doctors at the New England Medical Center in Boston are taking ultrasound one step further by developing 3-D images of the heart called heart holograms.

Using technology developed by Voxel Inc. in Laguna Hills, Calif., Dr. Mani A. Vannan and his colleague, Dr. Natesa G. Anandian, have been experimenting with the technique on animals. Some 120 ultrasound scans of an animal's heart are imprinted on a single piece of X-ray film. Then, the film is placed in a box containing prisms and a standard white light. "It creates the appearance that you can actually put your finger inside the heart," says Vannan. The image is life-size, so doctors can precisely measure defects. While heart holograms must be shown to work consistently in humans, Vannan's early research is "promising" and could be a widely available supplement to standard ultrasound.

THE SEARCH FOR THE PERFECT GLASS OF O.J.

Everyone knows that fresh orange juice tastes better than the reconstituted stuff. But what exactly is the difference? The citrus-processing industry wants to know which components account for the taste of freshness so that processes can, if possible, add back key flavor components that are lost during concentration.

Agricultural Research Service scientists Philip E. Shaw and Manuel Moshonas, along with Bela Buslig of the Florida Citrus Dept., have written a computer program that ranks

juices based on a set of 25 flavor components found in fresh juice. To use the program, a technician would plug in data from the chemical analysis of a juice to rank its flavor against a data base of fresh, pasteurized, and reconstituted juices. If the juice ranked lower than desired, the technician could decide which missing components to restore to improve its flavor. Shaw hopes the system will be tested next year: "It bypasses the prejudices of one taste tester vs. another and translates a juice's quality to a point on a graph," he says.

AT&T BRINGS MOLECULES INTO SHARPER FOCUS

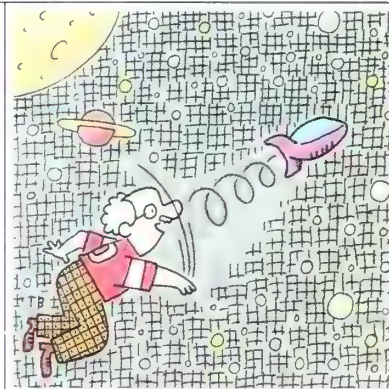
How do you look at a molecule? It's not so hard with an electron microscope—but getting a good look with the optical scanning type can be devilishly difficult. The problem: The optical "signature" of the molecule is masked by the huge volume of surrounding haze. That haziness can be minimized by focusing the probe beam more tightly. But the focus of conventional lenses just isn't tight enough. Researchers at AT&T Bell Laboratories say they have solved that problem with a new kind of microscope that funnels light through an optical fiber that tapers to 100 billionths of a meter, or one-thousandth the width of a human hair.

The Bell Labs researchers, Eric Betzig and Rob Chichester, reported in the issue of *Science* due out on Nov. 26 that they used their "near-field" scanning optical microscope to identify single molecules with more than 100 times the sensitivity of any previous method. The system allows them to generate a precise map of individual molecules on the surface of a specimen. Bell Labs sees a wide range of uses for the technology in cell biology, analytical chemistry, genetics, and in the new field of molecular engineering, which involves building electrical and mechanical devices out of individual molecules. Last year, Bell Labs announced that it used near-field imaging technology with a fiber to store data almost 100 times as densely as commercial optical-storage systems.

PIGSKINS WITH A WHOLE NEW SPIN

Alan J. Adler's Aerobie flying ring is in the *Guinness Book of World Records* for the farthest-thrown object: 1,257 feet. A triangular boomerang he invented, the Aerobie Orbiter, earned him an invitation to give an aerodynamics lecture at NASA's Ames Laboratory. Now, his Palo Alto (Calif.) company, Superflight Inc., has produced a foam football with curved tail fins that spins in flight at more than 1,000 revolutions per minute on a 20-yard throw.

Two other finned footballs have also bounced onto the market this year: the Vortex from OddzOn Products Inc. and the Long Bomb from Little Kids Inc. But those have straight fins, which slow their rotation. The Aerobie Football's computer-designed curved fins actually accelerate its rotation in flight. That makes it much easier to throw a perfect spiral. Warning to southpaws: You have to throw the football right-handed to make the curved fins do their work.



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THE NEW NINETEENTH-CENTURY EUROPEAN
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THE METROPOLITAN MUSEUM OF ART



FROM THE DIRECTOR



This fall, a major event occurred within the walls of The Metropolitan Museum of Art: the opening of a spectacular new museum-within-a-museum that, in its first week alone, was visited by more than 100,000 visitors from around the world.

With the opening of our new galleries for 19th-century European paintings and sculpture, we offer to the public a suite of classically appointed rooms so vast and so elegantly designed that they permit us to exhibit in a grand setting more of our great 19th-century works than ever before, particularly our superb Impressionist and Post-Impressionist paintings by Manet, Monet, Degas, Van Gogh, Cézanne, and many others.

Never before in the history of the Metropolitan Museum—and certainly nowhere else outside the Musée d'Orsay in Paris—has a museum been able to install such a large and representative collection of Impressionist works, and never before have they been hung in such a breathtaking space. Visitors encounter 21 separate, distinct rooms, many devoted

to individual artists. Three of these rooms, through December 12 only, have been set aside for an opening installation of the fabled, rarely seen Annenberg Collection of 53 outstanding Impressionist and Post-Impressionist masterpieces.

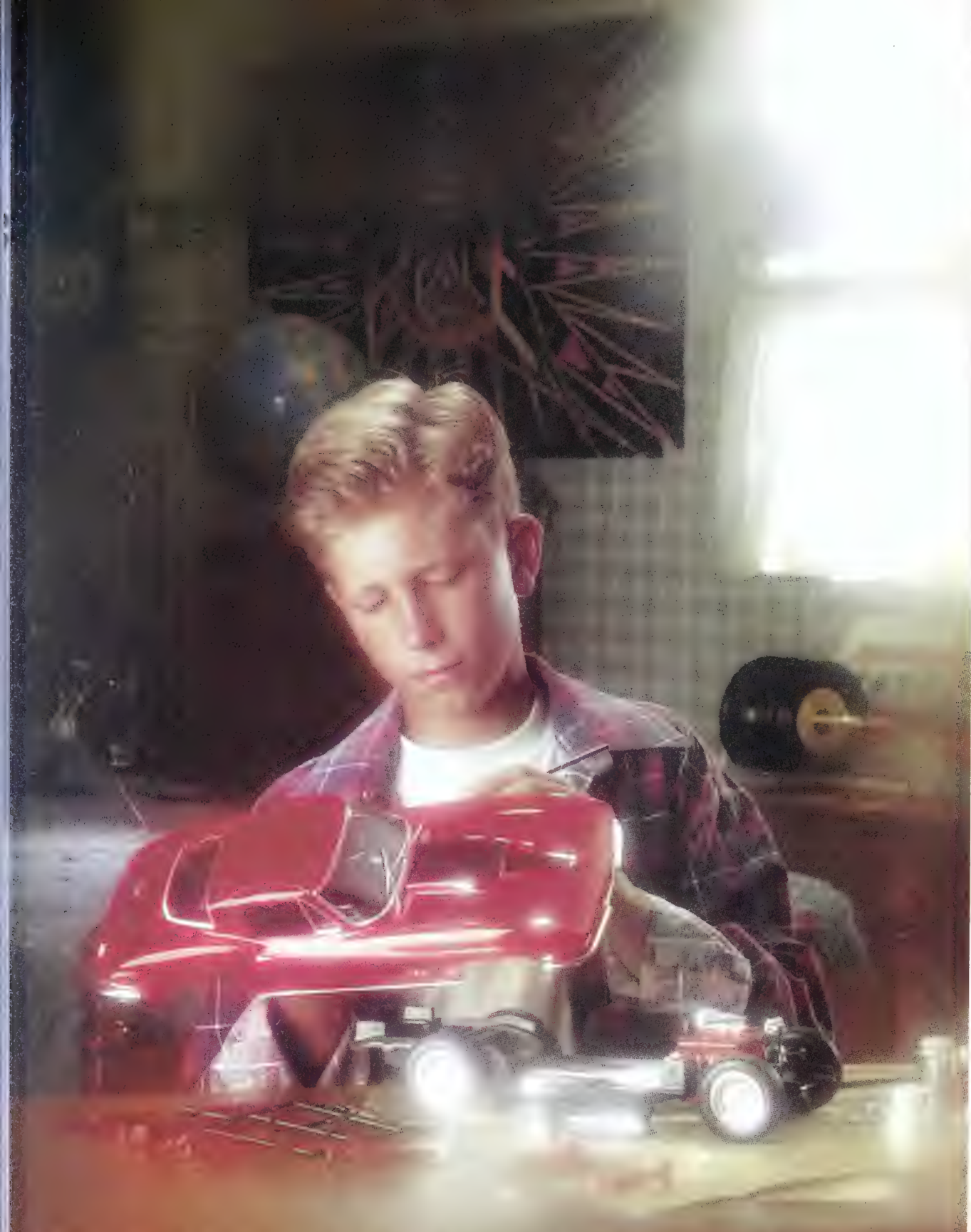
The inauguration of these galleries begins at the Metropolitan an era of "building from within," in which we dedicate ourselves to redefining and refining our spaces to best accommodate and present to the public our encyclopedic collection of art, from every continent...from the earliest times to the present...and at the highest levels of quality and invention. With pride, I invite you to the Metropolitan's 19th-century galleries—New York's newest and one of its most important museums.

Philippe de Montebello

DIRECTOR

The Metropolitan Museum of Art

Vincent van Gogh, *Wheat Field with Cypresses*, 1889
Oil on canvas. Purchase, The Annenberg Foundation Gift, 1993



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Chevrolet Corvette

CREATING THE "PERFECT" GALLERIES

By Gary Tinterow



"Some day, I suppose, it will be a great museum," says Newland Archer, the hero of Edith Wharton's *The Age of Innocence*, when he encounters the fledgling Metropolitan Museum of Art in the 1880s.

In the decades that have come and gone since, the museum has blossomed from a few rooms to a complex of galleries more than four city blocks long. Its collections, seeded by the gift of a Roman sarcophagus in 1870, now number well over two million works of art. Today, the Metropolitan Museum is the most popular attraction in New York City, with 4.5 million visitors each year, and it is considered one of the top-ranking museums in the world.

Wharton foretold a great future. She could never have imagined, however, the appeal that the art being created in Europe during her own time would hold for later generations. Indeed, the 19th century has given us some of the best-loved moments in the history of art, from Romanti-

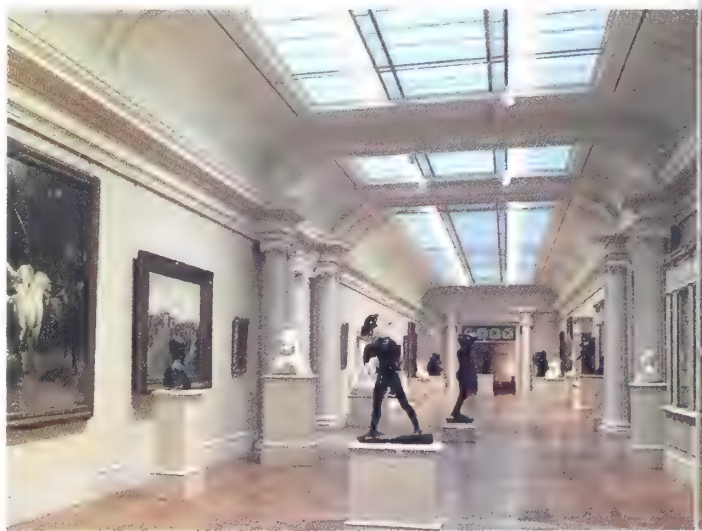
cism to Barbizon to Impressionism to Post-Impressionism, and some of its favorite names as well among them Corot, Manet, Degas, Cézanne, Monet, Renoir, Gauguin, Van Gogh, Seurat, Toulouse-Lautrec, Bonnard, Vuillard, Matisse, Picasso, and Braque.

The Metropolitan's astounding collection of 19th-century paintings and sculpture is the product of several generations of careful collecting and generous donating, and no less challenging than the effort to build the collection has been the effort to house it properly. The new galleries that opened this fall represent a dramatic change from any setting that has been created for these works before. What the museum has done now is more in line with what the 19th-century artists themselves might have envisioned for their works—the galleries are built in the Beaux-Arts rather than a contemporary style. The new plan is designed to fit into the architecture and ambiance of the overall museum. ➤

Gary Tinterow is the Engelhard Curator of European Paintings at The Metropolitan Museum of Art.



Opening reception of the temporary galleries of The Metropolitan Museum of Art at 681 Fifth Avenue on February 20, 1872

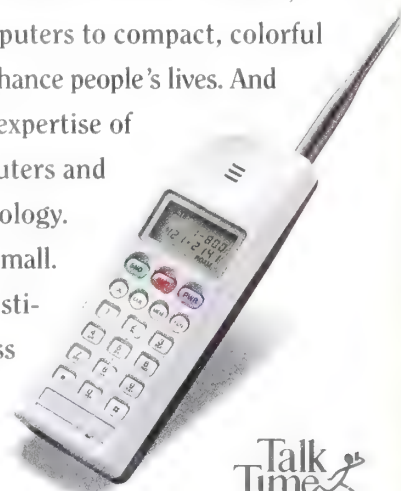


View of the B. Gerald Cantor Sculpture Gallery, installed with works by Rodin

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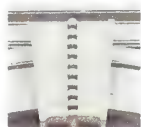
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A FUTURE WITH A PAST



"A near-perfect installation." Such was the assessment of New York Times architecture critic Ada Louise Huxtable in 1980, upon seeing the museum's modern display of its 19th-century European paintings and sculpture collection. But The Andre Meyer Galleries, originally billed as a permanent installation, were closed and dismantled in 1991, barely ten years after they were inaugurated, to make way for the recently opened new rooms that are stylistically and conceptually the antitheses of the galleries that previously occupied the same space.

Few permanent installations at the museum have lasted for more than a decade. The Metropolitan's first gallery (1870), in a former dancing academy at 681 Fifth Avenue, was a broad skylit room that provided a stark contrast to the dark series of smaller rooms that comprised the museum's second quarters on Fourteenth Street. By 1880, when the Metropolitan moved to its third and permanent home in Central Park, four paintings galleries were provided on the second floor, lined with burlap and lit by daylight and gas lighting—a commodious start for a picture collection of only 174 mostly Dutch and Flemish paintings.

When Wing A was built at the east end of the building, the paintings were hung three or four rows high, in the manner that had been customary since the late 16th century. But the size of the galleries was already inadequate by the time they opened. Wing B, opened in 1888, had the virtue of a more up-to-date, neo-Greek facade, but the paintings galleries were narrow rectangular rooms often three times longer than they were wide. The next extension, Wing C, was so infelicitously designed that it has been subsumed in the course of the museum's rebuilding and hardly a trace of the original is visible today.

Following the Second World War, Francis Henry Taylor, the energetic new director of the museum, modernized the building and made stylish new rooms for the paintings. After the collections returned from wartime storage to Manhattan, he embarked on a \$9 million renovation that completely transformed the oldest sections of the building. The new rooms were wider, and more modern and expansive. "It was a period when everyone wanted light and air," wrote the curator of paintings, Theodore Rousseau, Jr., of that 1954 refurbishment.

Through the 1960s, the galleries were further modernized, but the decoration and arrangement of the works remained largely the same until 1969, when the museum's permanent collection was moved to the north wing on Fifth Avenue, above the Egyptian collections. The permanent collection was installed in modern splendor in a newly renovated space with enormous blank walls and seemingly endless, polished terrazzo floors.

Then, in 1971, after the museum's centennial exhibitions

closed, Everett Fahy, Rousseau's successor as curator of paintings, reinstalled the permanent collection in Wings A, B, and regrouping the pictures by national schools.

It was only five years later, in 1976, that Sir John Poole Hennessy was appointed consultative chairman of the paintings department and he rehung the galleries yet again. He kept reorganization by national school, but promoted stylistic affinities within them, devoting whole walls to particular artists. By far the most dramatic change was the installation of the 19th-century paintings in a huge hall atop the Michael C. Rockefeller Wing, a new area that had been created by architects Kevin Roche John Dinkeloo and Associates as part of the ambitious master plan for expanding the building that was initiated in 1970 and finally completed in 1992.

This new hall was an enormous clear-span space, 200 by 120 feet, uninterrupted by columns. The ceiling of the large central gallery was made entirely of 2-by-2-foot glass panes suspended

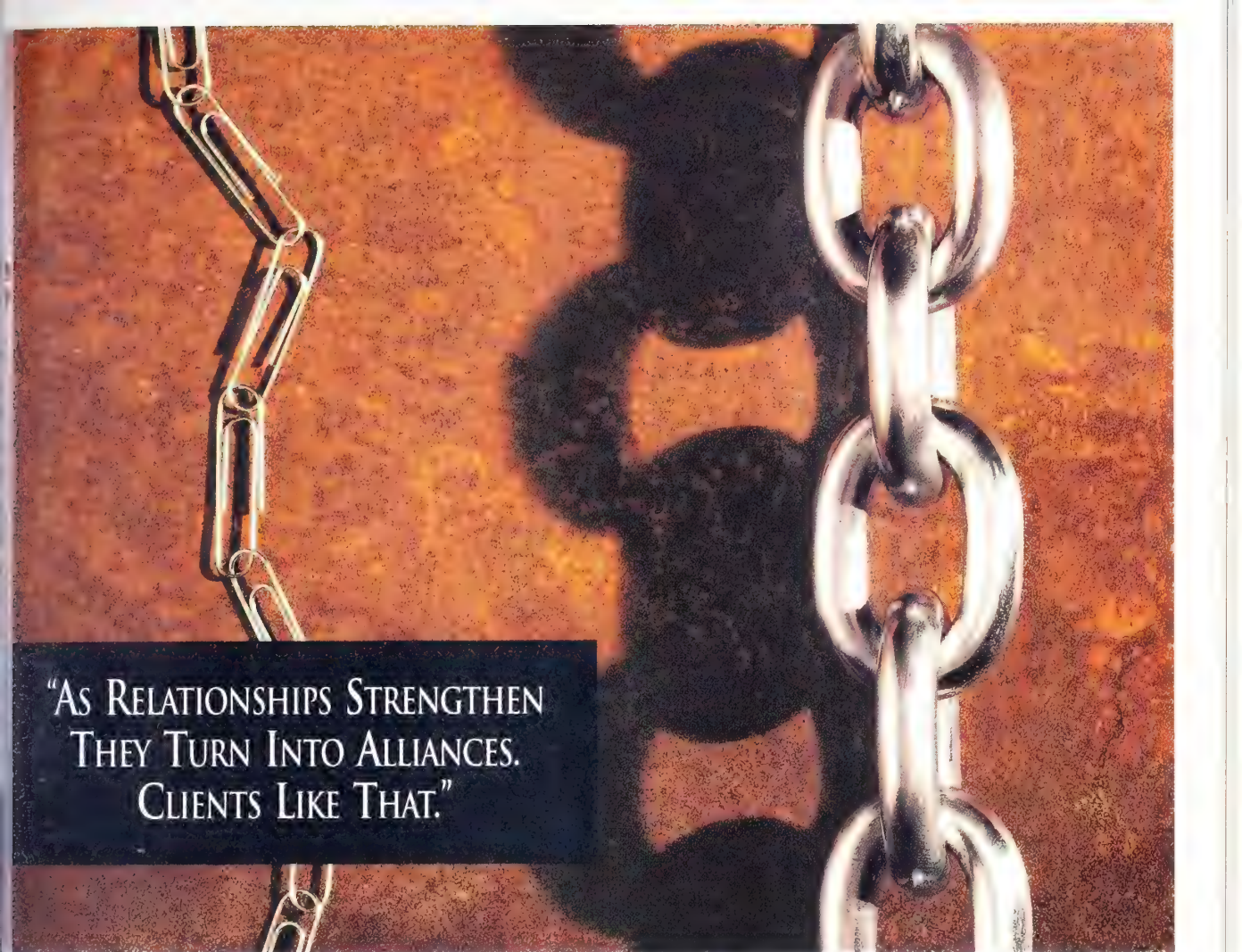


Paintings galleries in Wing A, photographed between 1887 and 1902

from the trusses that supported the roof and skylight. It seemed to stretch to infinity and let in a large measure of New York's strong daylight. The 19th-century paintings were placed on screen-like partitions, and the works of single artists were shown together. The Impressionists and Post-Impressionists were given pride of place in the central area.

By the end of the 1980s, when these heavily visited galleries needed refurbishing, it had become clear that this open plan was no longer viable. As architect Philip Johnson put it in 1988: "That modern architecture thing—with movable partitions—is gone. We're over that, over, over." Thus, in 1989, director Philippe de Montebello asked David Harvey, senior exhibit designer, and myself to develop a new plan for rooms to house the collection in the same space as The Andre Meyer Galleries.

Working within the existing space, we developed a sequence of rooms that would have a clear start and finish. At the director's request, we widened the corridor linking the



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reek and Roman galleries at the east end with the special exhibition and 19th-century galleries to the west. With a nod to the Grande Galerie of the Louvre, the director decided that this great gallery, no longer a passage, would house sculpture and large Salon paintings and serve as a foyer for the rest of the new galleries.



The galleries as they appeared in 1988

We then planned a circuit that would provide a sequence of rooms to be devoted to the movements of the first half of the 19th century—Neoclassicism, Romanticism, the Barbizon school, and Realism—a sequence that would lead the visitor to a large central gallery.

We envisioned a central space, in which we intended to hang the museum's collection of life-size figure paintings by Ingres and Delacroix, from which one could enter a suite of Degas galleries to the east; a pair of Courbet galleries to the north and south; or, to the west, a set of nine galleries for Impressionist and Post-Impressionist paintings, all of which would interrelate in a way that would allow the visitors to determine their own path.

Our plan for the 21 new galleries was approved in 1990, and the next year the Honorable and Mrs. Walter H. Annenberg, longtime trustees of the museum, pledged \$5 million toward the \$100 million renovation. We created a large-scale model that enabled us to study scaled reproductions of the paintings in their future rooms. This model was enormously helpful, not only because it brought problems to the surface at a point when plans could still be revised, but because it also enabled the Annenbergs to visualize how their extraordinary collection of 19th-century French paintings might look if it were installed there. In the winter of 1990-91 the Annenbergs announced their intention to donate their collection to the museum, which in turn agreed to dedicate three galleries in the new space for the display of their pictures.

We quickly realized that if we placed the Annenberg collection in the three central galleries of the



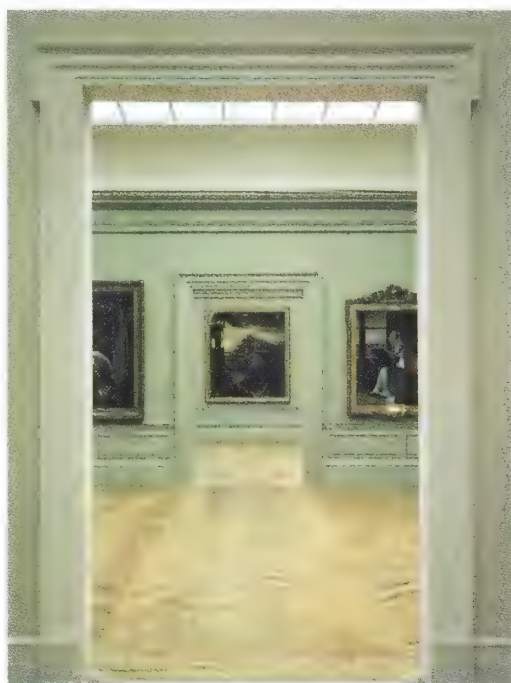
View into the new Courbet and Manet Galleries

block of nine Impressionist and Post-Impressionist rooms, their collection would be both self-contained and open to the rest of the permanent collection. Through a careful placement of doors, we have been able to provide many desirable juxtapositions between Annenberg pictures and other Museum pictures.

The idea governing the design of the new galleries was to create rooms similar in scale and appearance to those for which the artists created their pictures. We hoped we could make the new galleries appear as if they had been designed and built by McKim, Mead, and White at the turn of the century. We turned to the firm's original drawings, still kept in the building, only to learn that they had not designed picture galleries for the museum. We adapted some details from the McKim, Mead, and White designs, but soon realized that the decoration of the new galleries would be best approached by returning to the sources used by the Beaux-Arts architects: Vignola and

Palladio. Architect Alvin Holm ensured that the new design was correct in proportion and detail.

As a repository of man's material culture from all ages and cultures, the museum was entitled, we felt, to use the classical vocabulary legitimately and without apology, as it had in the past. In doing so, we sought to create noble spaces that are sober and restrained, spaces that recede sufficiently to allow the paintings and sculptures to be seen comfortably, without distraction. We set out to build well-proportioned Beaux-Arts paintings galleries such as those we thought the museum had featured at the beginning of the century. In fact, they had never been built. So we recreated the past we wished we had had. ➤



The new Neoclassic and Romantic galleries

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[FIGURE 1]
Eugène Delacroix
(French, 1798-1855)
The Natchez, 1844-45
Oil on canvas
Purchase, Gifts of
George N. and Helen
M. Richard and Mr.
and Mrs. Charles S.
McVeigh and Bequest
of Emma A. Sheaffer,
by exchange, 1989.
Delacroix's tender
scene of two American
Indians regarding
their newborn
child was based on
Chateaubriand's 1801
novel *Atala*.

HIGHLIGHTS OF THE COLLECTION



[FIGURE 2]
Jacques-Louis David
(French, 1748-1825)
*General Étienne Maurice
Gérard* (1773-1852).
Marshal of France, 1810
Oil on canvas
Purchase, Rogers
and Fletcher Funds,
Bequest of Mary
Wetmore Shively in
memory of her
husband, Henry L.
Shively, M.D., by
exchange, 1965.
David, exiled from
France after Napoleon's
defeat at Waterloo,
painted this portrait in
Brussels, where Gérard
was also in exile.



[FIGURE 3]
Rosa Bonheur
(French, 1822-1899)
The Horse Fair, 1855
Oil on canvas
Gift of Cornelius
Vanderbilt, 1887.
Bonheur dressed as a
man to attract atten-
tion as she sketched the
Paris horse market in
preparation for painting
this successful work





[FIGURE 4]
Honoré Daumier
(French, 1808-1879)
The Third Class
Carriage, 1863-65
Oil on canvas. H.O.
Havemeyer Collection,
Bequest of Mrs. H.O.
Havemeyer, 1929.
This celebrated image
of working-class
travelers was produced
by tracing a watercolor
and then enlarging
the composition.



[FIGURE 5]
Édouard Manet
(French, 1832-1883)
*Mademoiselle V. in the
Costume of an Espada*,
1862, Oil on canvas
H.O. Havemeyer
Collection, Bequest
of Mrs. H.O.
Havemeyer, 1929.
Purposeful incon-
gruities abound in this
painting—the model,
Victorine Meurent, is
dressed as a man, her
shoes are unsuitable
for bullfighting, her
cape is the wrong hue,
and the background
scenes are taken from
a set of Goya prints.



[5]



[6]

[FIGURE 6]
Hilaire-Germain-
Edgar Degas
(French, 1834-1917)
*The Little Fourteen-
Year-Old Dancer*, cast
1922 from wax
sculpture ca.1880
Bronze, tulle skirt
and satin
H.O. Havemeyer Col-
lection, Bequest of Mrs.
H.O. Havemeyer, 1929.
The care with which
Degas observed his
model, a ballet student
in the Paris Opéra
named Marie van
Goethem, is reflected
in the extraordinary
number of surviving
sketches as well as in
the preparatory
sculptural study of
the figure in the nude.

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HIGHLIGHTS
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[FIGURE 7]

Hilare Germain
Edgar Degas
(French, 1834-1917)
The Dancing Class, 1871
Oil on wood
H.O. Havemeyer
Collection, Bequest
of Mrs. H.O.
Havemeyer, 1929.
This small painting
was Degas's first of
many depictions of
a dance class.



[FIGURE 8]

Auguste Rodin
(French, 1840-1917)
The Bronze Age,
modeled 1876
Bronze
Bequest of Stephen
C. Clark, 1967.
The lively modeling
of the nude and its
deceptively realistic
appearance represented
such a departure from
the conventions of
academic sculpture of
the time that Rodin was
accused of casting from
a live model.

[1]



[8]

[FIGURE 9]

Claude Monet
(French, 1840-1926)
*Garden at Sainte-
Adresse*, 1866
Oil on canvas
Purchase, special
contributions and
funds given or
bequeathed by friends
of the Museum, 1967.
Monet spent the
summer of 1867
with his family at the
seaside resort of Sainte-
Adresse, where he
painted this work.
His father and aunt are
seated in the foreground
facing the sea and the
couple standing may be
his cousin and uncle.



[1]

PAUL CÉZANNE
OF THE
COLLECTION

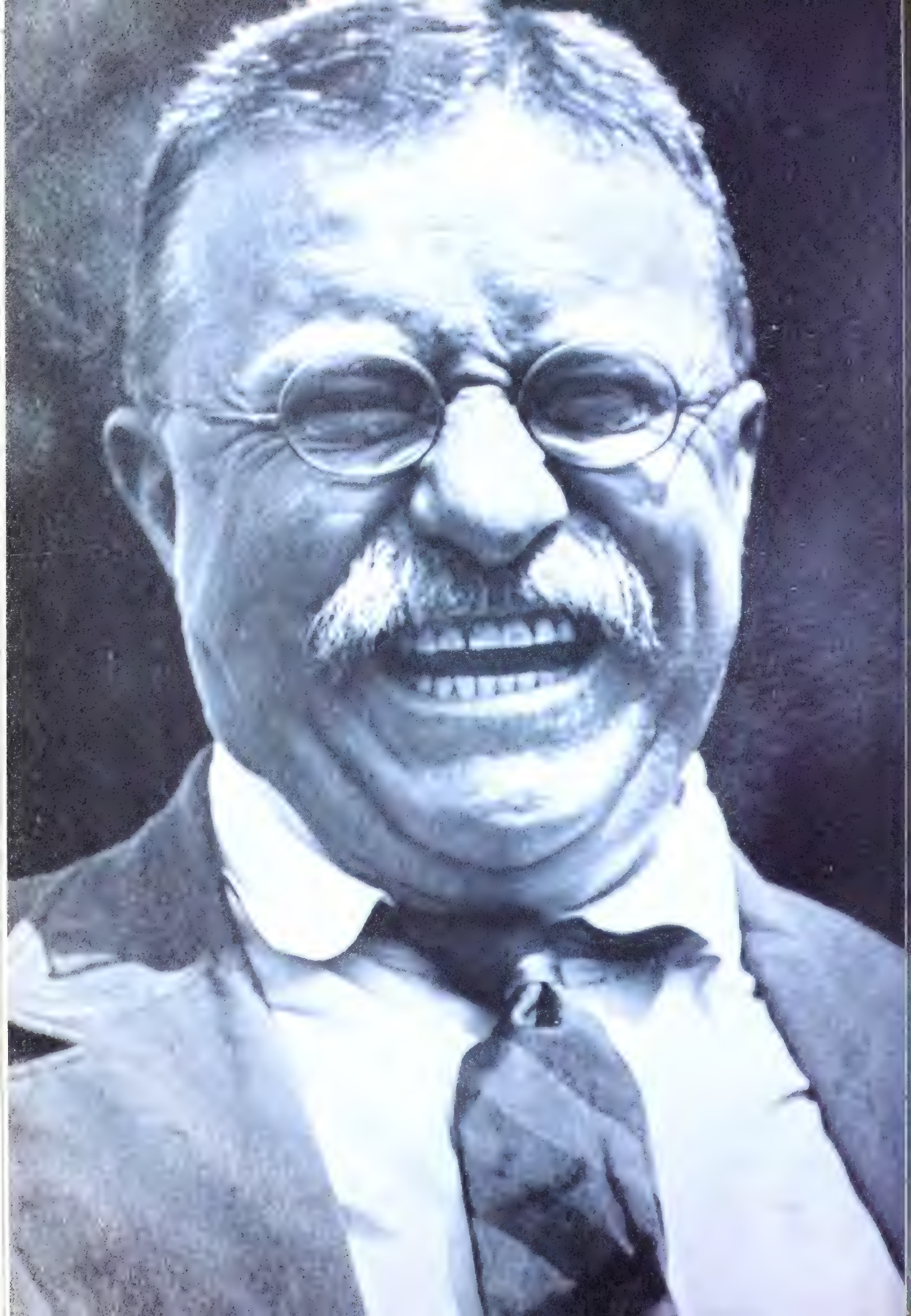
[FIGURE 10]
Paul Cézanne
(French, 1839-1906)
The Card Players,
early 1890s
Oil on canvas
Bequest of Stephen
C. Clark, 1960.
Cézanne painted five
versions of this ambi-
tious genre scene.

[FIGURE 11]
Claude Monet
(French, 1840-1926)
La Grenouillère, 1869
Oil on canvas
H.O. Havemeyer
Collection, Bequest
of Mrs. H.O.
Havemeyer, 1929.
In 1869 Monet and
Renoir lived near each
other west of Paris
and both painted pic-
tures of the swimming
spot of La Grenouillère.

[FIGURE 12]
Pierre-Auguste Renoir
(French, 1841-1919)
By the Seashore, 1883
Oil on canvas
H.O. Havemeyer
Collection, Bequest
of Mrs. H.O.
Havemeyer, 1929.
The porcelain smooth-
ness of the girl's face
and the careful drawing
of the figure show the
influences of Renoir's
trip to Italy in 1881.



[1]



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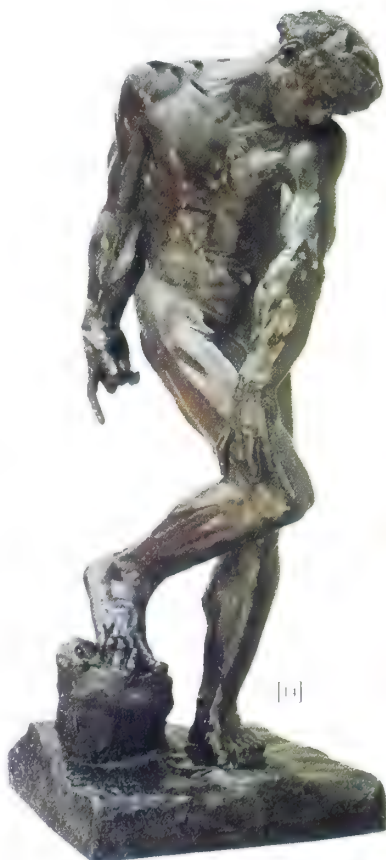


HIGHLIGHTS
OF THE
COLLECTION

[FIGURE 13]
Pierre-Auguste Renoir
(French, 1841-1919)
*Madame Georges
Charpentier (Marguerite
Lemonnier, died 1904)
and Her Children*,
Georgette (born 1872)
and Paul (1875-1895),
1878, Oil on canvas
Catharine Lorillard
Wolfe Collection,
Wolfe Fund, 1907.
The eminent publisher
Georges Charpentier
and his wife occupied
an important position
in the intellectual and
social life of Paris. This
painting was exhibited
at the official Salon to
great acclaim.



[FIGURE 14]
Auguste Rodin
(French, 1840-1917)
Adam, modeled 1880,
cast 1910, Bronze.
Gift of Thomas
F. Ryan, 1910.
Rodin was deeply
influenced by the
work of Michelangelo.



[FIGURE 15]
Paul Gauguin
(French, 1848-1903)
la Orana Maria
(*Hail Mary*), 1891
Oil on canvas
Bequest of Sam A.
Lewisohn, 1951.
The artist, visiting
Tahiti for the first time,
adapted vernacular art
and customs of the
South Pacific while
expressing a Christian
theme. The title, in
native dialect, was the
angel Gabriel's greeting
to the Virgin Mary at
the Annunciation.





[FIGURE 16]
Vincent van Gogh
(Dutch, 1853-1890)
*Self-portrait with a
Straw Hat*, 1887
Oil on canvas
Bequest of Miss Ade-
laide Milton de Groot
(1876-1967), 1967.
Van Gogh painted
at least 24 self-portraits
in Paris between
March 1886 and
February 1888; this
one shows his aware-
ness of Neo-Impres-
sionist technique and
color theory.

[FIGURE 17]
Auguste Rodin
(French, 1840-1917)
*Final Study for the
Monument to Balzac*,
modeled 1898, cast
1972, Bronze.
Gift of B. Gerald
Cantor Art
Foundation, 1984.
Rodin tried to create
a vivid image of
Balzac in his numerous
preparatory studies
for a monument
honoring the author
to be erected at the
Palais Royal in Paris.
The final figure, more
a symbol than a por-
trait, created a furor
and was rejected.



[FIGURE 18]
Georges-Pierre Seurat
(French, 1859-1891)
Circus Sideshow,
1887-88
Oil on canvas
Bequest of Stephen
C. Clark, 1960.
This is Seurat's first
nocturnal scene in oil
and also the first to
depict a popular enter-
tainment, a subject that
would dominate his
large projects for the
rest of his brief career.

HOW THE COLLECTION WAS FORMED



The Metropolitan Museum of Art, unlike its European counterparts, was built not upon royal state collections but with works of art given by private citizens. Some of the donors were fabulously wealthy industrialists who amassed enormous collections, such as J. P. Morgan and H. O. Havemyer and his wife, Louisine. Others were modest art lovers, like Mary Goldenberg, who gave the museum its first Courbet, *A Boat on the Shore*, in 1899.

Here are some of the donors whose taste, enthusiasms, and accumulated gifts helped form the Metropolitan Museum's extraordinary collection of 19th-century European paintings and sculpture:

CORNELIUS P. VANDERBILT. Few if any of the museum's paintings have enjoyed such wide popularity and respect from connoisseurs as Rosa Bonheur's *The Horse Fair*, which Vanderbilt, a museum trustee, presented to the Metropolitan in March 1887. He had purchased it for \$53,000 after the death of its former owner, A. T. Stewart of New York, who in turn had bought it for 30,000 francs (about \$6,000).

HENRY HILTON. Meissonier's celebrated military canvas, *Friedland*, also from the collection of A. T. Stewart, was bought by Judge Hilton for \$66,000 and given to the museum in 1887. Said the artist about the work: "I have bestowed all the science and experience I have been able to acquire in my art."

ERWIN DAVIS, another New York-based entrepreneur, started to buy French and American 19th-century paintings in 1880, largely guided by the painter J. Alden Weir. He became one of the earliest patrons of Impressionist art and donated to the Metropolitan the first Impressionist paintings to enter any American museum: Manet's *Woman with a Parrot* and *Boy with a Sword*.

CATHARINE LORILLARD WOLFE had, from early life, cultivated an affection for the fine arts, and she was one of the earliest members of the museum as well as a devoted collector of masters in the modern schools. She bequeathed to the Metropolitan a fund that provides for her collection's future growth. The Wolfe Fund has since made possible the acquisition of, among other masterpieces, one of Renoir's greatest works, *Madame Charpentier and Her Children*.

THE ROGERS FUND. In 1901 Jacob S. Rogers died, leaving \$4.5 million to establish a fund for buying "rare and desirable" works of art as well as books for the museum library. Rogers had been a member



Portrait of Erwin Davis as an old man painted by John Alden Weir (American Academy Institute of Arts and Letters; photo: Geoffrey Clements)



Alexandre Cabanel, *Catharine Lorillard Wolfe*, 1867. Oil on canvas, Catharine Lorillard Wolfe Collection, Bequest of Catharine Lorillard Wolfe, 1887



Jacob S. Rogers

of the museum since 1881 (paying his annual dues) and must have come to the conclusion that the museum was capable of using large means wisely. The Rogers bequest changed the whole nature of the museum: overnight it found itself a powerful buyer of art.

COLLIS P. HUNTINGTON. Vermeer's *Lady with a Lute* and two masterpieces of English painting, Lawrence's *Calvary Children* and Reynolds' *Lord Smith and Her Children*, were among the exquisite works in the paintings collection bequeathed by Huntington in 1900.

When Auguste Rodin died in November 1917, the major portion of the Metropolitan's extensive collection of his sculpture had already been acquired. In fact, by 1912 the museum had opened a gallery devoted entirely to Rodin, a real tribute to the artist's stature since the acquisition of large bodies of work by living artists was not yet commonplace. Two of the donors of works by Rodin are particularly notable. The first is **SAMUEL P. AVERY**, one of the museum's founding trustees and a guiding spirit in the early years of the institution, who in 1893 donated Rodin's exceptional bronze bust of Saint John the Baptist. The other is **THOMAS FORTUNE RYAN**, a rags-to-riches businessman who hated the artist's (accurately) realistic portrait of him but who donated many of Rodin's other sculptures to the Metropolitan. The museum also commissioned a bronze of *Adam* after sculptor Daniel Chester French saw the plaster model for the work in Rodin's studio in 1910.

BENJAMIN ALTMAN. The New York department store magnate died in 1913, leaving \$35 million to philanthropic institutions in New York City, including the greatest bequest the Metropolitan had ever received. In it were works by old masters (including Fra Angelico, Titian, Rembrandt, and Van Dyck).

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Here's to living up to our own expectations and not someone else's.

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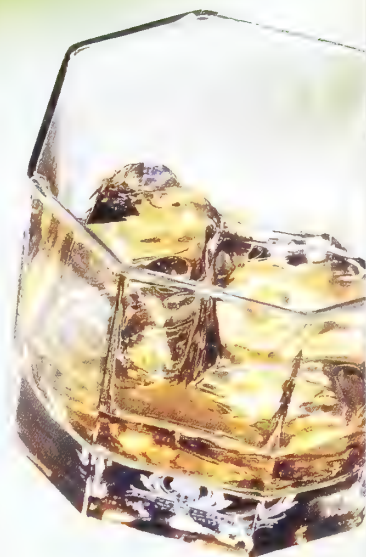
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and Chinese porcelain, as well as many modern paintings, which were given a special exhibition in the museum in 1914. Of the French paintings, three Corots—all landscapes from his later period—are particularly noteworthy.

THEODORE M. DAVIS of Rhode Island bequeathed in 1915 his collection of more than a thousand objects covering a wide range of periods from ancient Egypt to the present. The more modern works include one from Claude Monet's great series of Rouen Cathedral and a tender landscape by Corot.

GEORGE F. BAKER, a museum trustee and a member of its executive committee, gave to the Metropolitan Henri Regnault's famous *Salomé*, of which Théophile Gautier wrote: "His is the most remarkable individuality among the young generation of artists; to be in the first rank amongst the moderns seems to be his due, if he has not already reached it."

ISAAC D. FLETCHER from Bangor, Maine, became a successful merchant and museum benefactor. The bequest of his art collection to the Metropolitan included a striking portrait of Mlle Charlotte du Val d'Ognes, a painting that bears no signature and was regarded for many years as a celebrated portrait by Jacques-Louis David. A 1950 museum bulletin puts forth the theory that the painter may in fact have been Madame Constance Marie Charpentier and adds, "the notion that our portrait of Mlle Charlotte may have been painted by a woman is, let us confess, an attractive idea."

Many women were benefactresses of the museum in its early years, beginning with Catharine Lorillard Wolfe and followed soon after by **MARY GOLDENBERG** (Courbet's *A Boat on the Shore*), **ELIZABETH MILBANK ANDERSON** (Courbet's *Louis Gueymard as Robert le Diable*, for which the sitter was the famous Paris Opéra tenor), and **MARY** (Monet's *Spring [Fruit Trees in Bloom]*). Little is known of their personal lives or their private collections beyond the gifts they made to the Metropolitan.

HUGO REISINGER was a discriminating collector of modern art and an enthusiastic promoter of cultural exchanges between his native Germany and the United States. He bequeathed to the Metropolitan Museum a fund for the acquisition of paintings and sculpture by German artists, and this fund was used to buy Arnold Böcklin's *The Island of the Dead*, a work more widely known than any other created in Germany since the 16th century.



Collis P. Huntington



Portrait of Benjamin Altman by Ellen Emmet Rand, bequeathed to the Museum by Mr. Altman in 1913



Theodore M. Davis



Portrait of Isaac D. Fletcher (1914) by Carnig Eksbergian, bequeathed to the Metropolitan Museum by Mr. Fletcher in 1917

WILLIAM H. HERRIMAN. Upon the death of Gustave Moreau in 1898, it was found that the artist had left his home in Paris, with the roughly 100 paintings and studies in it, to the French nation. These have since been made into the Gustave Moreau Museum. One of the few works by Moreau on the south side of France is the painting *Oedipus and the Sphinx*, which belonged to Herriman and was bequeathed by him to the Metropolitan.

H.O. AND LOUISINE HAVEMEYER. Henry Osborne Havemeyer, head of the American Stationery and Refining Company, became one of the museum's principal benefactors in 1888. Encouraged by his wife Louisine, he amassed by the time of his death in 1907 one of the greatest private collections of old and contemporary masterworks, which Mrs. Havemeyer continued to augment until her death in 1929. In 1907, one of the family's major bequests to the Metropolitan. It was through her friendship with Mary Cassatt, the American expatriate painter, that Mrs. Havemeyer first came in contact with the Impressionist artists in Paris, among them Degas, whose works were particularly enchanted her. Museum curator A. H. M. Mayor wrote in 1957 that the Havemeyer "Masterpieces of Degas and Courbet are so fine that the Impressionist painters can now be seen better in America than at home. The collection has become a part of all our lives, and New York would no longer be quite the same if one now took away the series of Degas paintings and bronzes, Goya's *Majas on a Balcony*, or El Greco's storm over Toledo."

LILLIE P. BLISS. No privately owned collection in New York was better known in the 1920s than that of Miss Bliss, who bequeathed 13 works of art to the museum, including Daumier's *The Laundry* and Monet's *Manneporte near Étretat*. The foremost master of Impressionism, Monet, was by this painting well represented at the museum, through works accumulated from the Havemeyer Collection, Theodore M. Davis, and Lillie Bliss.

JULIA W. EMMONS, who died in 1956, bequeathed five splendid paintings dating from 1882 to 1900, including Renoir's *The Bay of Naples* and Monet's *Morning on the Seine near Giverny*.

HARRY PAYNE BINGHAM. Twenty years after the loaned Courbet's *Demoiselles de Village* to the Metropolitan for its 50th-anniversary celebration, Bingham made it a formal gift. Of this work, the artist said, "I have made something gracious"; of its exhibition at the museum, one curator wrote that it "radiates its sane sweetness through the galleries of French painting."



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ings." One of Degas's greatest ballet paintings, *The Dance Lesson*, went to the museum as a bequest of Mrs. Harry Payne Bingham in 1986.

ALFRED H. BARR, JR. This leading real-estate developer, art patron, and amateur painter bequeathed to the Metropolitan Museum Redon's *Pan dora*, a work typical of the artist's mythological pictures, in which a delicately drawn figure clutches the box that would release all the evils that have plagued mankind.

WILLIAM EDWARD OSBORN, a president of the Metropolitan Museum, was a boyhood friend of Frederic Edwin Church, the leading Hudson River School painter. Church influenced Osborn's predilection for landscapes and the formation of his choice collection of modern French paintings. Osborn gave the museum Manet's *Spanish Singer* and later bequeathed works including Monet's *Regatta at Sainte-Adresse* and Pissarro's *Jalais Hill, Pontoise*.

SAMUEL A. LEWISOHN, a pioneer in industrial relations, was a lawyer who gave up practice to assume control of his family's mining interests. Also a trustee of the Metropolitan, he wrote books on both industry and painting, and he built a noted collection of modern works in his home that reflected a special enthusiasm for the art of the French Impressionists. Two outstanding paintings bequeathed by him to the museum were Cézanne's *Still Life with Apples and Primroses*—which had been presented by the artist to Claude Monet and once hung over Monet's bed in Giverny—and Gauguin's *la Orana Maria*, which signals the artist's 1891 arrival in Tahiti and that important phase of his art.

ADOLF LEWISOHN The benefactions of the Bernhards, who donated funds for the acquisition of paintings, and the Loebes, who in 1962 gave the Met Van Gogh's glorious *Oleanders*, may be seen as part of a family tradition. Mrs. Bernhard and Mrs. Loeb were the daughters of Adele and Arthur Lehman, a relative of Philip Lehman, who with his son Robert formed one of the world's finest private collections. Adele Lehman's father, Adolph Lewisoohn, and her brother Samuel were two of the most inspired collectors this country has ever known. The museum's collections have been enormously enriched by the extraordinary bequests of Samuel Lewisoohn in 1951, Adele Lehman in 1965, and Robert Lehman in 1975. From generation to generation and from Pissarro to Van Gogh, the Metropolitan has been heir to the



In the Studio by Gari Melchers, showing the artist and his patron Hugo Reisinger (MMA, Gift of Curt H. Reisinger, 1956)



Photograph of H.O. and Louise Havemeyer in Paris in 1889



Lillie P. Bliss



Portrait of William Church Osborn, 1945, by Michel Alexander Werboff (Arthur Hopppock Hearn Fund, 1945)



Samuel A. Lewisoohn (NYT Pictures)

legacy of these distinguished New York families.

ADELE R. LEVY. In 1961 Alfred H. Barr, Jr., described the late Adele R. Levy as a "woman of good taste and, perhaps more important, a woman of courage, sense of responsibility, and vision." An enthusiastic art collector, philanthropist, and civic and social-service leader, Mrs. Levy gave her collection of modern paintings to several American museums across the country, where the individual gifts best complemented or extended existing collections. She gave Vincent van Gogh's *Iris* to the Metropolitan in 1958.

STEPHEN C. CLARK, heir to the Singer Sewing Machine Company and founder of the National Baseball Hall of Fame, was a noted collector and patron of the arts. His collection came to be known here and abroad as one of the few really great modern collections of our times. By his will he bequeathed the museum all of his paintings and drawings by Cézanne, Degas, El Greco, and Seurat. These included Seurat's *Circus Sideshow*, and Cézanne's *Mada Cézanne in the Conservatory* and *The Card Players*.

MR. AND MRS. HENRY ITTLESON, JR. The first Sisley to enter the museum was a landscape given by the Ittlesons, *The Bridge at Villeneuve-la-Garenne*. They also established a purchase fund for acquisitions, which has enabled the museum to add to its collection two Renoirs, two Cézannes, two Redons, and a Van Gogh.

ADELAIDE MILTON DE GROOT died in her ninety-first year, leaving the museum her entire collection of paintings, some of which had already been on loan for many years. Miss de Groot was trained as an artist and took an interest in painting of all periods. Her collection ranged from important panels by 17th-century Flemings Rubens and Jordaens, to Delacroix's opulent *Still Life of Flowers in a Park* [Bouquet of Flowers], Toulouse-Lautrec's sketch *The Englishman at the Moulin Rouge*, and a moving early self-portrait by Vincent van Gogh. The Adelaide Milton de Groot Fund still supports archaeological investigation, excavation, and research.

JOAN WHITNEY PAYSON was co-owner of the Greentree racing stable, and as an enthusiastic baseball fan she became the first principal owner of the New York Mets in 1962. But painting and sculpture were her primary lifelong interest. As a museum trustee, she enabled the Metropolitan to acquire a number of important works at auction, and at her death in 1975, the museum received ten paintings from her collection, including works by Signac.



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Manet, Cézanne, and Toulouse-Lautrec.

ROBERT LEHMAN. The Lehmans lovingly accumulated an extraordinary range of art—Philip Lehman in the quarter century before his death in 1926, and son Robert, who in the field of modern French painting assembled striking groups of Fauve and Pointillist paintings and watercolors.

MRS. BERTRAM SMITH. Water lilies preoccupied Claude Monet at the end of his career and they are the subject most closely identified in the public mind with his work. Mrs. Smith closed a major gap in the museum's collection with the donation of a superb late water lily work.

JOANNE TOOR CUMMINGS's generosity similarly redressed an imbalance in the museum's Gauguin holdings with her promised gift of *Still Life with Sunflowers* and Puvis de Chavannes's "Hope", one of the great symbolic works of Gauguin's last years and the museum's first still life by that artist.

MR. AND MRS. B. GERALD CANTOR. Forty-eight years ago Mr. Cantor, then a young entrepreneur, visited the Metropolitan Museum and fell in love with a marble sculpture—Rodin's *Hand of God*. Two years later, he bought a small bronze version of the work and began what would ultimately become the most comprehensive private collection of Rodin sculptures in the world. Over the years the Cantors have generously given the museum an impressive collection of Rodin sculptures, including *The Burghers of Calais*. The Cantors have contributed most notably to the building and renovation of galleries in the museum: the B. Gerald Cantor Sculpture Gallery, The Iris and B. Gerald Cantor Galleries (for European 19th-century sculpture and decorative arts), the Iris and B. Gerald Cantor Exhibition Hall, and The Iris and B. Gerald Cantor Roof Garden.

MR. AND MRS. DAVID ROCKEFELLER. In November 1992 the museum's director, Philippe de Montebello, announced the acquisition of eight important French Impressionist works, gifts of several of the Metropolitan's most generous patrons. Among these was Édouard Manet's *The Brioche*, a strong and splendidly painted still life in oil inspired by a Chardin still life that the artist had seen in the Louvre. It is a partial and promised gift of Mr. and Mrs. David Rockefeller, supporters of the museum since 1946 and distinguished collectors of 19th- and 20th-century paintings.

JANICE H. LEVIN. Along with a grant supporting the renovation of the museum's new galleries for 19th-century painting, Mrs. Levin, a



Photograph of Miss de Groot with Van Gogh's *Self-portrait with a Straw Hat*, which she bequeathed to the Museum in 1967, along with the rest of her collection



Stephen C. Clark



Joan Whitney Payson at home, 1950s (photo courtesy John and Joanne Payson and family)



Robert Lehman



The Honorable and Mrs. Walter H. Annenberg (Photo: Joyce Rudolph)

prominent New York businesswoman and philanthropist, also pledged to give the museum the important Impressionist paintings: Sisley's *Soles Meadows in the Morning Sun*, Pissarro's *Côte des Grouettes, near Pontoise*, and Degas's *Portrait of the Stock Exchange*. She and her husband, the Philip Levin, began collecting art in 1959 and donated funds to the museum consistently over the last 20 years. She has been an honorary trustee since March 1993.

MR. AND MRS. DOUGLAS DILLON. A former ambassador to France and Secretary of the Treasury, Douglas Dillon has been a trustee of the museum since 1951 and served as its president and then chairman (1970-1983). During his tenure he oversaw one of the most active building periods in the Metropolitan Museum's history with the development and implementation in the early 1970s of the architectural master plan, which virtually doubled the museum's exhibition space. Particularly interested in Asian art, Mr. Dillon has supported the museum's acquisition of Chinese painting, making its collection one of the country's finest today, housed in the Douglas Dillon Galleries. In 1992 he and Mrs. Dillon donated to the Metropolitan four important paintings from their personal collection, including the museum's first Equestrian jockey scene, Morisot's *Young Woman Seated on a Sofa*, Sisley's *The Seine at Bougival*, and Pissarro's *Garden of the Tuileries on a Spring Morning*.

THE HONORABLE AND MRS. WALTER H. ANNENBERG have long been generous supporters of the Metropolitan. Mr. Annenberg, longtime chairman of Triangle Publications and a former ambassador to The Court of St. James's, was a trustee of the museum from 1974 to 1981 and is now an honorary trustee; Mrs. Annenberg currently serves as a trustee. In addition to numerous gifts to the museum, the Annenbergs anticipate bequeathing their superb collection of 19th-century works of Impressionist and Post-Impressionist art, the largest bequest of its kind since that of H. O. Hirsch in 1929.

Their first acquisitions were made in the early 1950s, and since then, the Annenbergs have steadily and thoughtfully assembled a group of paintings that together give evidence of the achievement of the masters of Impressionism and Post-Impressionism equaled by very few collections in private hands today. Philippe de Montebello has written, "The names represented...are magisterial—Cézanne, Degas, Monet, Van Gogh, Gauguin, Picasso and the individual objects yet more telling." <3>

METROPOLITAN MUSEUM OF ART INFORMATION

WHAT'S NEW AND UPCOMING AT THE MUSEUM

THE ANNENBERG COLLECTION OF IMPRESSIONIST AND POST-IMPRESSIONIST MASTERPIECES, through December 12

18TH-CENTURY PORTRAITS, LANDSCAPES, AND NUDES, through January 2

FRANCE GOULD GALLERIES FOR 18TH-CENTURY EUROPEAN DECORATIVE ARTS, new permanent installation

THE MUSEUM'S GREAT PICTURE, *THE HEART OF THE ANDES*, through January 2

MASTER DRAWINGS OF THE HUDSON RIVER SCHOOL, through December 26

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CONTINENTAL: IN FOR THE SHORT HAUL

It starts a low-fare, quick-hop service to win back passengers



CONTINENTAL'S "ADD-A-PENNY, ADD-A-PAL" IS A KNOCKOFF OF A SOUTHWEST PROMOTION

A poster in his Houston office vividly depicts Sam Coats's awesome challenge. One panel reads: "The airline industry circa 1993" above a drawing of a dinosaur. Next is a glowing picture of an overflowing treasure chest, with the caption: "The mission of CALite," the wry internal nickname for Continental Airlines Inc.'s new low-fare, short-distance service. Achieving the riches of the second image won't be easy. But Coats, one of the creators of the new service, is upbeat. "It's an operation that shows that a large airline can begin to remake itself," he says.

Just how much Continental is willing to change became apparent on Oct. 1, when CEO Robert R. Ferguson III introduced low-fare service on more than 50 short-haul routes in the eastern U.S. Modeled after the successful strategy of Southwest Airlines Co., the low-cost industry leader, CALite has undercut competitors' unrestricted fares by 50% to 80% (table). And while Continental's low-fare scheme is still in its infancy, representing just 5% of the Continental system, analysts

reckon it could ultimately grow to 25%.

CALite is a key part of the rebirth of Continental, which emerged from its second bankruptcy in a little more than seven years on Apr. 27. The Houston-based airline is counting heavily on the potentially lucrative short-haul market to return to profitability. CALite is also supposed to infuse the rest of the company with more efficient operating methods, such as quicker turnarounds. "It's supposed to infect the whole bloody company," says Coats. And Continental is hoping that CALite will give its image a

little lift on Wall Street. Before the end of the year, the carrier hopes to raise \$150 million through an initial public offering. "These guys have taken a lot worth taking," says analyst Raymond E. Neidl of Furman Selz Inc.

Big rivals, already squeezed by profitable Southwest and a slew of upstarts, are watching CALite warily. If the new service makes money, "then we have a problem on our hands," says Donald Carty, executive vice-president of finance and planning at American Airlines. Not to get caught flat-footed, United, Delta, and USAir are all studying proposals to create their own low-cost, short-haul operations to remain competitive.

CUTTING COSTS. Whatever the competition does, Continental has a head start. After breaking union contracts during the combative reign of former Chairman Frank A. Lorenzo in the 1980s, the carrier now enjoys below-average wage rates and flexible work rules that enhance productivity. American, which agreed on Nov. 22 to binding arbitration to end a bitter strike with flight attendants over wages and work rules, figures that Continental's unit labor costs—measured in terms of number of seats available and distance flown—were nearly 40% lower than its own last year. On top of that, Continental has slashed its long-term debt from \$1.7 billion to a burdensome \$4 billion.

To build on such improvements, Continental, 44 and an eight-year Continental veteran, turned to Coats and other executives last April to devise a profitable short-haul service. What emerged was a low-fare program that closely tracks the model of Southwest. Like Southwest, CALite focuses on providing frequent, direct flights between cities, instead of requiring passengers to travel to a hub and connecting flights. Partly because of the hub-and-spoke system's inefficiency, Continental's costs on short-haul flights had been running roughly 60% higher than Southwest's.

CALite intends to boost productivity by turning planes around at the

in 20 minutes or less—compared with 50 at Continental's hubs. Now it's using cut-rate "Peanuts Fare" to lure passengers who might otherwise have traveled by car or stayed at home. Continental is imitating Southwest's promotional no surprise, since the airline recruited former Southwest marketing executive Donald G. Valentine, who kicked off CALite with an "Add-A-Penny, Add-A-Pal" program, which passengers can buy an extra ticket, with some restrictions, for only a cent—a knockoff of Southwest's

A NO-FRILLS COMEBACK?

Continental has sharply reduced fares on over 50 routes. Here's how they compare on selected flights:

	Average route market fare*	CALite Peanuts Fare
CLEVELAND-BUFFALO	\$121	\$59
GREENSBORO, N.C.-TAMPA	162	99
JACKSONVILLE- FORT LAUDERDALE	160	49
ATLANTA-CHARLESTON, S.C.	152	99
PROVIDENCE-NEWARK, N.J.	108	59

*One-way 1992 fourth-quarter fare, including nonstop and connecting flights
DATA: COMPANY REPORTS, AVIATION INC.

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you're still waiting to see your doctor about
your enlarged prostate. Maybe it's time to stop waiting.**

**Ask your doctor about
the prescription medicine PROSCAR®.**
(FINASTERIDE)

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for the treatment
of symptomatic benign
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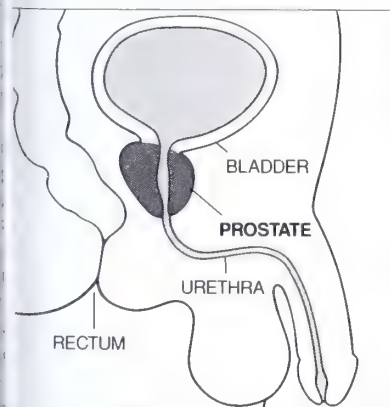
You can't make it till halftime anymore without having to go to the bathroom. You're getting up several times a night to urinate. It's beginning to bother you, but up to now, you've lived with it. The question is, should you?

Until recently, there wasn't a medicine that could help the condition known as symptomatic benign prostate enlargement or BPH. But now there is PROSCAR, the first oral prescription medicine that can actually shrink an enlarged prostate.

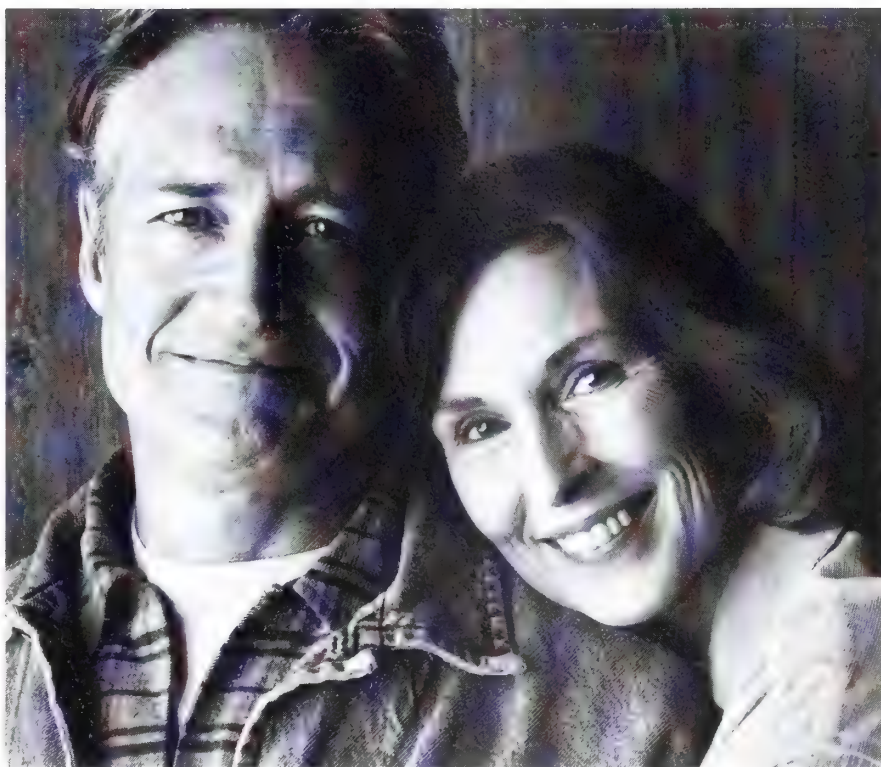
However, it is important to know the following: PROSCAR doesn't work for everyone. Even though the prostate shrinks, you may not see an improvement in urinary flow or symptoms. And you may need to take PROSCAR for months or more to see whether it helps you.

**How PROSCAR can shrink an
enlarged prostate**

As a man ages, a key hormone can help cause the prostate to grow.



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.



PROSCAR actually blocks the production of this hormone, so it helps shrink the prostate to a smaller size in many men. As a result, some men treated with PROSCAR experience an increased urinary flow and an improvement in urinary symptoms.

**Why you should see your
doctor soon**

The problem will probably not get better by itself. In many cases, the prostate continues to enlarge and the symptoms may get worse. So if your urinary symptoms are bothering you, consult your family doctor or a urologist and find out if PROSCAR is an appropriate treatment for you. It is also important to have regular checkups. While benign prostate enlargement is not cancer and does not lead to cancer,

the two conditions can exist at the same time.

Remember, only a doctor can evaluate your symptoms and their possible causes. So don't wait any longer. You may find out that your enlarged prostate can be made into a smaller problem.

For a free, informative booklet, "Every man should know about his prostate," call 1-800-635-4452 today.

TABLETS
PROSCAR® 5mg
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PATIENT INFORMATION ABOUT PROSCAR® (Prah-s-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

• **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.

• **Medication.** Your doctor may prescribe PROSCAR for BPH. See "What PROSCAR does" below.

• **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

• **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.

• **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

• **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.

• **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.

• A warning about PROSCAR and pregnancy.

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you. Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.



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west's "Friends Fly Free" campaign.

Despite the copycat strategy, Continental has been careful not to go to-head with Southwest on its se routes. Instead, analysts point out Continental's biggest short-haul competitor is struggling USAir Inc., one of the highest-cost carriers in the industry.

So far, Continental executive CALite is running at 60% of capacity, well ahead of projections—though it concedes that the service is not yet profitable. Daniel Garton, the airline's financial officer, says the service

Some fear trying to be things to all passengers hurt Continental's image

be in the black in six months. On the line has lost \$12 million on revenue of \$2.5 billion since emerging from bankruptcy. Many analysts expect the company to post a loss for the year and at least break even in 1994.

Still, it's one thing to mimic Southwest, but quite another to show it consistently stellar results. Some rival analysts question whether CALite lure enough customers on such routes as Greensboro, N.C., to Cleveland to maintain frequent, Southwest-style service. And then there's the competition: Air and American have matched Continental's low fares on selected flights, though they've restricted the number of seats available at those prices.

But the nagging question is whether Continental can truly duplicate Southwest's strategy. Unlike Southwest, Continental has no intention of abandoning its long-haul and international routes, the amenities that go with it, such as first-class service, hot meals, advance seat assignments, all the things that Southwest does without. And fear the effort to be all things to all passengers will only muddle Continental's efforts to burnish its image, especially with business passengers. In the wake of bankruptcy and periods of slow service have driven away many long-haul business passengers, who typically pay higher fares.

But after 2½ years of struggling in bankruptcy court, Continental figures must take some risks to restore its health. And with the megacarriers frantically searching for solutions to cost problems and facing long battles with recalcitrant unions, there may be a better time to try to fly Southwest direction.

By Wendy Zellner in Ho

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A WHEELER-DEALER LIFTS ABBEY OUT OF ITS WHEELCHAIR

CEO Aitken has made the home-health-care outfit a contender

Timothy Maxwell Aitken has never been modest about his pedigree. The first entry on his resumé reads: "Raised by his Grandfather—the first Lord Beaverbrook... a close friend and associate of Prime Minister Winston Churchill and a member of the British Cabinet." With connections like that, it may seem odd that the 49-year-old British investment banker left home to run a nearly bankrupt Southern California medical-equipment company that sold wheelchairs and walkers.

But there's more to Aitken than social snobbery: He is one heck of an '80s-style wheeler-dealer. In the two years he has headed Abbey Health-care Group Inc., based in Costa Mesa, Calif., he has spent more than \$240 million to snap up 23 small health-care companies. He closed his latest deal on Nov. 10, with the \$194 million acquisition of Total Pharmaceutical Care Inc., a home-infusion company based in Torrance, Calif.

His buying binge has transformed the once moribund company into quite a contender in the fast-growing home-health-care market. It now offers services ranging from home respirators to electronic monitoring for sleep disorders. "We're watching [Abbey] with interest and growing respect," says Jeremy M. Jones, CEO of Homedco Group Inc., an industry leader. Small wonder. Analyst Joseph D. France of Merrill Lynch & Co. figures that Abbey's profits could rise by 35% this year, to \$14 million, as its revenues climb 31%, to \$325 million. And Abbey's stock has climbed 38% since May, to 23¢, roughly where it was in January.

Aitken first heard of Abbey in 1990, when he got a call from a Beaverbrook cousin whose company held a 57% stake

in Abbey. Aitken had spent the 1980s in Britain fixing up diverse businesses, including a burglar-alarm company. So his cousin asked him to take a look at Abbey. What Aitken found was a company saddled with heavy debt and losses because of previous ill-timed expansion.

Still, with insurers battling to keep expensive hospital stays to a minimum, Aitken figured the home-health-care field held promise, and he agreed to become Abbey's CEO in 1991. At first, he trimmed Abbey's costs, closing down

home services that would appeal to insurers looking for volume discounts and the ease of dealing with a national chain. So far, Abbey has snared contracts with big HMOs, such as Kaiser Permanente and United HealthCare Corp. Edward Novinski, who buys services for United, says his recent deal with Abbey locked "heavily discounted" rates for a two-year period.

HMO HUNTING. Not all has gone smoothly for Aitken, though. In April, he lost a \$220 million hostile-takeover bid for Boston-based Lifetime Corp., a home-nursing company that ultimately was acquired by Olsten Corp., another nursing outfit. Also, some institutional investors worry that Aitken may be sacrificing financial stability in his rush to expand. Aitken sued \$200 million in debt to finance his purchase of Total Pharmaceutical. He pushed Abbey's ratio of debt to total capitalization to a hefty 74%, vs. an industry average of 35%. And critics question whether the deal was worth it. Ho-

ABBHEY'S BUYING BINGE

The company has spent more than \$240 million to acquire 23 health-care outfits since 1992, with total estimated 1993 revenues of \$136 million. Recent purchases include:

Company	Date Acquired
HOME INFUSION	
TOTAL PHARMACEUTICAL CARE	Nov. 10, 1993
HOME RESPIRATORY AID	
HOME OXYGEN & MEDICAL EQUIPMENT	May 14, 1993
WEST MEDICAL	March 12, 1993
HVI HOMECARE	Feb. 12, 1993
CHARTER OAK PHARMACY	Oct. 23, 1992

DATA: COMPANY REPORTS, BUSINESS WEEK



AITKEN: IS THE BLUE-BLOODED BRITON EXPANDING TOO FAST?

two dozen branches and cutting the work force in half, to 1,200. Aitken also got a break from Abbey's creditors, who feared that they would lose their investment if the company collapsed. GE Capital Corp. gave back some equity and restructured \$15 million in late loan payments. Avon Products Inc., meanwhile, agreed to exchange \$110 million of debt and equity, which it had received for one of Abbey's old acquisitions, for \$2 million in cash and \$5 million of Abbey stock.

Next, Aitken embarked on his own acquisition strategy to build a network of

wars and competition to get HMO business are cutting margins in the home-nursing market. "We didn't like the acquisition," says one money manager who recently unloaded a large Abbey position. "I think it will come back to hurt them."

Aitken defends the Total Pharmaceutical purchase, insisting that Abbey has grown too fast to compete. He says that health-care reforms mean the \$7.5 billion home health-care market could grow at a 20% annual clip. The challenge for Aitken, however, is to make sure that profits are growing as fast as Abbey's sales.

By Eric Schine in Costa Mesa, Calif.

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SAVOY PICTURES GETS THE STAR TREATMENT

The small but well-connected film studio has investors salivating

Considering that it was Robert DeNiro's directorial debut, *A Bronx Tale* did a fast fade at the box office. No matter. In mid-October, two weeks after releasing its inaugural film, Savoy Pictures Entertainment filed registration statements to raise an estimated \$60 million in additional stock and subordinated debentures. Even in Hollywood, where hyperbole rules, it's hard to exaggerate tiny Savoy's takeoff: Only 21 months after its founding, the New York-based film company's stock has soared (chart), and it has already raised more than \$400 million in debt and equity.

True, Savoy is not your garden-variety startup. Its backers include such prominent names as Chicago's Pritzker family, Japanese trading giant Mitsui & Co., and New York investment banker Herbert A. Allen Jr. Nor are these ordinary times: With telephone and cable companies throwing billions at anyone capable of putting images on celluloid, Wall Street has made even the newest and weakest entertainment companies hot properties.

Savoy's two founders have had propitious timing before: Victor A. Kaufman and Lewis J. Korman are former top executives at Columbia Pictures Entertainment Inc. who ran another startup, Tri-Star Pictures Inc. in the mid-1980s. Both made millions, along with Tri-Star's backers, when Sony Corp. paid \$3.4 billion for Columbia and Tri-Star in 1989.

Now, Hollywood executives say Kaufman and Korman are assembling another studio to make another sale. The two are noncommittal about their intentions. Yet as Korman notes: "We thought the values couldn't get any higher than when Sony bought Columbia. But it just keeps going up."

Savoy's team knew they were on to a good thing when Ted Turner plunked

down \$260 million in mid-July for another Hollywood minnow, Castle Rock Entertainment. Castle Rock has produced such hits as *In the Line of Fire* and *A Few Good Men*, but its film library contains a paltry 12 titles.

Kaufman and Korman want to build a similar reputation for a few big hits. They've lured such Hollywood heavyweights as *Rambo* producer Andy Vajna and former Universal Pictures Chairman Frank Price to Savoy's board by giving both hefty stock options. And they recently signed *The Fugitive* direc-

tor Andrew Davis to make three budget films.

Betting on pricey projects has almost ruined studios such as Carolco Pictures Inc. Savoy hopes to avoid that by selling its films' foreign and home-video rights to other studios, which will allow it to cover more than half its production costs. To retain domestic rights, Savoy has taken the risky step of building a distribution system, which forces it to absorb huge marketing costs. Those expenses for *A Bronx Tale* accounted for most of Savoy's \$4.4 million in losses the first nine months of 1993. "It's not a healthy decision to take on major studios toe-to-toe," says former Carolco President Peter Hoffman.

GRACE PERIOD. Kaufman insists that Savoy can afford to take losses for a while before it starts having hits. Home Office Inc. has pledged more than \$10 million to the company for pay-TV rights to its films. And the company carries only \$139 million in debt—less than a third of its total capitalization. Savoy plans to release 12 films in the next year and as many as 23 a year

in 1995. The company might also invest in theater chains, a cable channel, or a video game manufacturer.

Kaufman and Korman say the more quality films they make, the more likely they are to have winners. But the coming attractions give few clues of success. *Shadowlands*, a period love story with Anthony Hopkins and Debra Winger, has the potential to be a critical, though perhaps not commercial winner. Less promising is *Serious Mom*, which Savoy describes as an "offbeat comedy," starring Kathleen Turner as a car-pooling mother who becomes a serial killer.

Savoy is clearly still finding its feet creatively. So it helps to have backers such as Herbert Allen, a leading entertainment-industry banker whose participation in Savoy has been enough to boost its stock. Is Wall Street counting on Allen to peddle Savoy to a big telephone or cable company? "I've got to make some films first," he cautions. But will Savoy eventually entertain offers? "Our plan is to maximize shareholder value," says Kaufman. In today's frenzied environment, that's a tall order, all that different from hanging out "for sale" sign.

By Ronald Grover in Los Angeles



A STOCK TALE WITH A WALL AT THE BOX OFFICE, AND SHADOWLANDS MAY BE ONLY A CRITICAL SUCCESS



Banking on The New Investor

the second such yearly event held in conjunction with *Business Week*. Giving urgency to the 1993 forum is that "banks are moving into the financial services business in ever-expanding fashion," said **Paul J. Hondros**, president of Fidelity Investments Institutional Services Co., Inc.

In stark contrast to the past decade or more of doldrums and decline, "Banking is on the move, at a rapid, exciting, some would say even a precarious pace," Hondros said; "Every time you turn around, somebody else is getting into the business." It's a business that has "great potential" for banks, Hondros said, assuring them that "we want to help grow the industry."

There are risks, he noted, such as depositors becoming disgruntled if they weren't fully aware that investment securities, unlike bank deposits, can fluctuate in market value. But, Hondros stressed, the greatest risk would be inaction: "If you're not careful," he quipped, "there are great opportunities to be missed."

Driving the banks into the investment business are some compelling numbers. The amount of money in open-end mutual funds is likely to cross the \$2 trillion threshold by year-end, estimated **Geoffrey H.**

Bobroff, senior vice president of Lipper Analytical Services, Inc. That would mean mutual funds have exploded to twice their size of only three years before, in part because equity funds have benefited from a strong stock market.

Banks are very much part of this dynamic scene. About 3,500 offer mutual funds of some sort, usually those provided by an outside fund sponsor such as Fidelity. Indeed, banks advise or manage more than one quarter of the nation's approximately 4,000 mutual funds, according to industry statistics. Yet there's room to expand. While nine out of 10 large banks offer mutual funds, about six out of 10 smaller banks—with assets less than \$1 billion each—still haven't taken the plunge into selling mutual funds.

They have good reason to consider what they're missing. Mutual funds have already garnered about 10% of the financial resources of American households, up from 3% in 1980, and their share is heading toward 17% by the year 2000. It's a very different picture with bank deposits. They have dropped to 22% from 33% in 1980, and their share is tilting downward toward around 16% by the turn of the century, estimated **James M. McCormick**, president of First

America's banks are on the stronger position at the of the financial life of the American household. As mers develop into instead of savers, the banks in step by providing a growing array of mutual other investment choices. Washington finally having most of the barriers them and the investment bankers increasingly realize have a rare opportunity to ergent growth and greater y. To succeed in the high-tive investment field, bankers recognize that make wrenching cultural s—carefully, but with no aste. as the challenging theme elity Investments 1993 l Forum, which attracted n 250 senior executives ks of all sizes. The three- , held recently at the ade Center in Boston, was

"You can probably grow a bank 8% a year. But I believe we can grow the mortgage, mutual fund and trust businesses 25% a year." JOHN B. MCCOY, CHAIRMAN & CEO BANC ONE CORP.

Manhattan Consulting Group.

On the other side of the coin, or of the balance sheet, banks continue to experience little growth in lending generally, and only microscopic growth in the most rewarding loans. Moreover, while bank trust departments have been enjoying growth, McCormick reported, "mutual funds are growing over three times the rate of managed personal trust assets."

As a result, banks are in a "revenue crunch" from which they can escape only by "identifying and capturing new sources of fee revenues," McCormick maintained. This, he emphasized, is "not optional"—without fresh fee sources, even a superregional bank typically won't be able to keep pace with inflation; as the bank shrinks in real terms, its stock price is unlikely to stay high enough to preserve its independence.

THE CUSTOMERS' NEW NEEDS

In the midst of all this, bank customers are changing fast, too—but that's not bad. "The borrower is becoming a saver and investor," found **Joel B. Alvord**, chairman and chief executive officer of Shawmut National Corp. In sharp contrast to the borrowing booms of the past three decades, the '90s are seeing a surge of interest in 401k plans and other retirement vehicles as well as in financial securities generally, Alvord said. In large part because of customer interest in bank investment services, he added, "fee income is clearly on the march."

Naturally, bankers aren't of one



JOHN B. MCCOY
CHAIRMAN & CEO
BANC ONE CORP.

mind on what's ahead. Alvord foresees slower economic growth domestically and globally, with "tremendous overcapacity" causing another decade of consolidation in banking. While "demand for credit will increase over time," he predicted that "the banking industry as we know it will be getting a decreasing share."

John B. McCoy, chairman and CEO of Banc One Corp., said he is "much more bullish on this loan business," in part because of the virtual demise of "our biggest competitor," the savings and loan industry. In the Midwest, he said, "you can probably grow a bank 8% a year." But, he said, "I believe we can grow the mortgage, mutual fund, and trust businesses 25% a year." The prospect of such growth in the fee-generating lines is "the really exciting thing," McCoy said adding, "I like change, because that's what gives opportunity."

And change is what banks themselves must initiate, many participants enthusiastically acknowledged. Starting with their own attitudes, bank executives widely agreed that they must swiftly bring about a "cultural change" that per-

meates the bank from the boardroom to the backroom and the teller cage. In essence, the change is from performing a passive function—such as cashing a check or issuing a certificate of deposit at the customer's request—to initiating transactions in a pro-active way, like stockbrokers and insurance salespeople do.

The key reason that mind-set must change is that "bank products are bought, investment products are sold," said **Michael J.**

Rothmeier, executive vice president of Shawmut National Corp. Another distinction which many bankers still don't fully understand is "that the whole investment is not a product, it's a process," declared **Robert D. Flowers Jr.**, president and CEO of Banc One Securities Corp.

Increasingly, though, banks are discovering that the process itself is what creates their biggest opportunity. If the sale, service, and follow-up are done properly, the process of getting customers into mutual funds and other investments "will create a closer bond" with the customer, reported **Richard M. Linder**, chairman and CEO of Drovers Bancshares Corp.

Banks will blow that golden opportunity, Linder cautioned if they "want the customer to sign up and leave and not bother them." Few banks, small as well as large, seem likely to make that mistake. Instead of focusing on individual customers and individual products such as credit cards, "we're seeing ourselves more as household bankers," said **Thomas R. Brumley**, president

The borrower is becoming a saver and investor."

JOEL B. ALVORD, CHAIRMAN AND CEO, SHAWMUT NATIONAL CORP.

area Bancshares Corp. At the same time, "our customers have expanded their thought process" and are willing to accept a wider array of products and services, he said. It brings a long-term benefit, Alvord declared: "The more things we can sell a customer, the closer we are to your institution."

Fortuitously, community banks are ideally positioned to make the most of the opportunities presented by offering mutual fund investments, observed **Richard A. Neece**, chairman and CEO of First National Bancorp. "We've got the confidence of the public, and we've got the distribution network," he said. By focusing on "the total financial relationship" with the customer, bankers can "determine the needs, then develop the products and services."

Over time, it seems. For many years, in the last year or so, "a big thing happened on the way to the bank—they started becoming savers," observed **Robert T. Johnson**, executive vice president of Banc One, Arizona. Instead of accepting the 2% to 3% yields on money market instruments, they turned to equity and income mutual funds. "Many customers aren't going to come back" to being depositors, he said; should the market become less attractive, "they'll go for different kinds of mutual funds," such as money market and government bond funds.

As customers "mature in their financial lives," bank executives should make sure the information is passed to the appropriate units, Johnson suggested. Typically, bank



JOEL B. ALVORD
CHAIRMAN AND CEO
SHAWMUT NATIONAL CORP.

customers start out as depositors, perhaps with a childhood savings account. They graduate to that first credit card when they head for college. When they acquire a family, they also acquire checking accounts, mortgages, auto loans, and college loans for their offspring. Eventually, they need investment management services—for which they often turn to a competitor such as a brokerage house, mutual fund company or insurance company. But when you offer securities to your customers, Johnson said, "you can work them through your system until they reach private banking and trust department status."

Private banking, with its convenience and personalized service to clients who meet the widely varying criteria, is an increasingly popular way for banks to hold on to customers throughout their financial life cycles. And within private banking, "the trend is to bring it all together," said **John J. DeMarco**, senior vice-president and head of research and consulting for PSI. With a "unitary client management team," one representative links the client to, say, mutual fund, jumbo

mortgage, and trust specialists. That way, Dr. DeMarco said, "you maximize cross-selling," which is far more cost-effective than letting various departments make uncoordinated sales approaches.

Outside of private banking, too, bankers told of their efforts to "break down the silos," those constraints of attitude and tradition that inhibit a mortgage originator, for instance, from suggesting that a borrower consider a credit card or a mutual fund. Overcoming such parochialism takes many things, including "the right sales atmosphere," said McCoy of Banc One, who added, "We've tried every pay structure known to man."

CULTURAL CHANGE — OR ELSE

Chiefly, though, as mutual funds become more important to them, many bankers at the Fidelity Forum reported that they are trying harder to transform their employees into salespeople. The banking industry is a "people business, a personal service business, and is an industry undergoing rapid change," observed McNeece of First National Bancorp. "We need people who are engaging, good communicators, bright, and highly self-motivated. We want people who make things happen," he said. The irony, he said, is that "those aren't the type of people that our industry has traditionally hired."

As bankers try different routes towards motivating staff members to become pro-active team players, they have to keep a wary eye on the rules of the road—which keep changing, too. In recent months, various federal regulatory agencies

"We've got the confidence of the public, and we've got the distribution network."

RICHARD A. MCNEECE, CHAIRMAN AND CEO, FIRST NATIONAL BANCORP

have been issuing their own guidelines—sometimes cloudy and inconsistent ones—to assure that customers don't confuse securities with deposits. For instance, banks shouldn't split a commission with a teller on a specific sale, but may reward all tellers in a branch for making referrals, irrespective of success, to salespeople, advised **Brian W. Smith**, partner in Mayer, Brown & Platt. While some banks wall-off separate fund sales offices, Smith said he believes it's all right for a teller in a small bank to ask a customer with a maturing CD, "Did you know that we sell mutual funds?", then leave the teller cage for an area earmarked for information—as the teller may not give advice.

Another puzzler for bankers is whether to launch their own proprietary mutual funds or offer those of an established fund sponsor such as Fidelity, which manages \$50 billion of assets for banks and other intermediaries. With the proprietary funds of 110 banks already accounting for 10% of the mutual funds industry, few others have enough "critical mass," experts said.

Even now, some banks must waive part of their fees for their funds to offer competitive yields. In addition to legal and audit costs, banks must furnish "an incredible amount of information" to help sell their private-label funds "versus the 4,000 other mutual funds that are out there," said **Deborah G. Patterson**, director of KPMG Peat Marwick.

While bankers have to be in the position to offer investment products that their customers want, "you don't have to manufacture the prod-

uct that you sell, when it's available from someone like our host," observed **Jeffrey S. Maurer**, president of U.S. Trust Co. Even though they "outsource" their investment advice, smaller regional banks can garner plenty of fee income from distribution of mutual funds and other securities, he added.

State Street Bank and Trust Co. doesn't see itself in the custodial business, but in the "financial assets services business," commented **Marshall N. Carter**, chairman and CEO. About three-quarters of the company's revenue stream is fee income, which is not a cultural change for State Street, as it is already where other banks want to be in terms of fee income. Their mission is to continue to grow fee income, which has been growing at about a 20% compounded annual rate, Carter said, and to set the pace for other banks to follow. State Street is "very comfortable," he said, in an environment where it is both a customer and a competitor with financial services companies.

In any event, bankers packed the conference rooms to hear about the strategies of various Fidelity fund managers. "I like to really understand the company," said **Robert E. Stansky**, portfolio manager of the Fidelity Advisor Equity Portfolio: Growth, one of the Fidelity funds that's tailor-made for banks and other financial intermediaries. **Robert Haber**, portfolio manager of the Fidelity Advisor Income and Growth Portfolio, said what distinguishes his fund from other conservative funds is that he is required to "diversify across asset classes." With bonds to provide balance, he usually keeps his fund

only around 50% in equities. And those on the fixed-income side, like **J. Allegrini**, portfolio manager of Fidelity Advisor High Income Municipal Portfolio, cited reasons to "remain attractive." Among them: Lower inflation, higher taxes and less new supply in 1994 once the refinancing wave ends.

The legendary **Peter Lynch** provided a rationale for long-term investing in equities; it was Lynch, not **Nishan G. Vartabedian**, executive vice president of Fidelity Investments Institutional Services Co., Inc., who piloted Fidelity's flagship Magellan Fund to a 28-fold gain per share from 1977 to 1990. The return on stock has averaged 11% over the past 3 years, 50 years, and 70 years, Lynch said, and for those who invest when the market is down, "the gain is not like 14%."

Still, as they faced the inherent complexities of entering the investment world—so many choices, so much competition, such major structural changes to make—bankers had to wonder if this is the best time to get into mutual funds. "It's the only time we've got," responded **Hondros** of Fidelity. And **PSI's DeMarco** drove the point home: there is a product your customer wants and that you don't offer, you're forcing the customer to go down the street to another institution which does offer it.

With their industry having marched so far into the heart of their customer's financial lives, that's a chance fewer and fewer bankers are willing to take.

This text was written by Richard F. Janssen, a Pennsylvania-based writer.

THE DESTRUCTIVE COSTS OF GREASING PALMS

diverting resources and undermining competition, corruption hinders economic development

Corruption, like poverty, has always been with us. As long as there have been ambitious royal courtiers, greedy government officials, and bureaucrats on the make, the use or theft of public goods for private gain has occurred. In recent years, corruption has spread way beyond the borders of countries of Africa and Latin America. Indeed, it has affected so many developing and developed nations that a global revulsion against it has swept politicians out of office in countries from Brazil to Italy to Japan.

There's no question that the moral that corruption engenders is harmful. Corruption also carries myriad economic costs. The petty bribery practiced by minor bureaucrats who demand

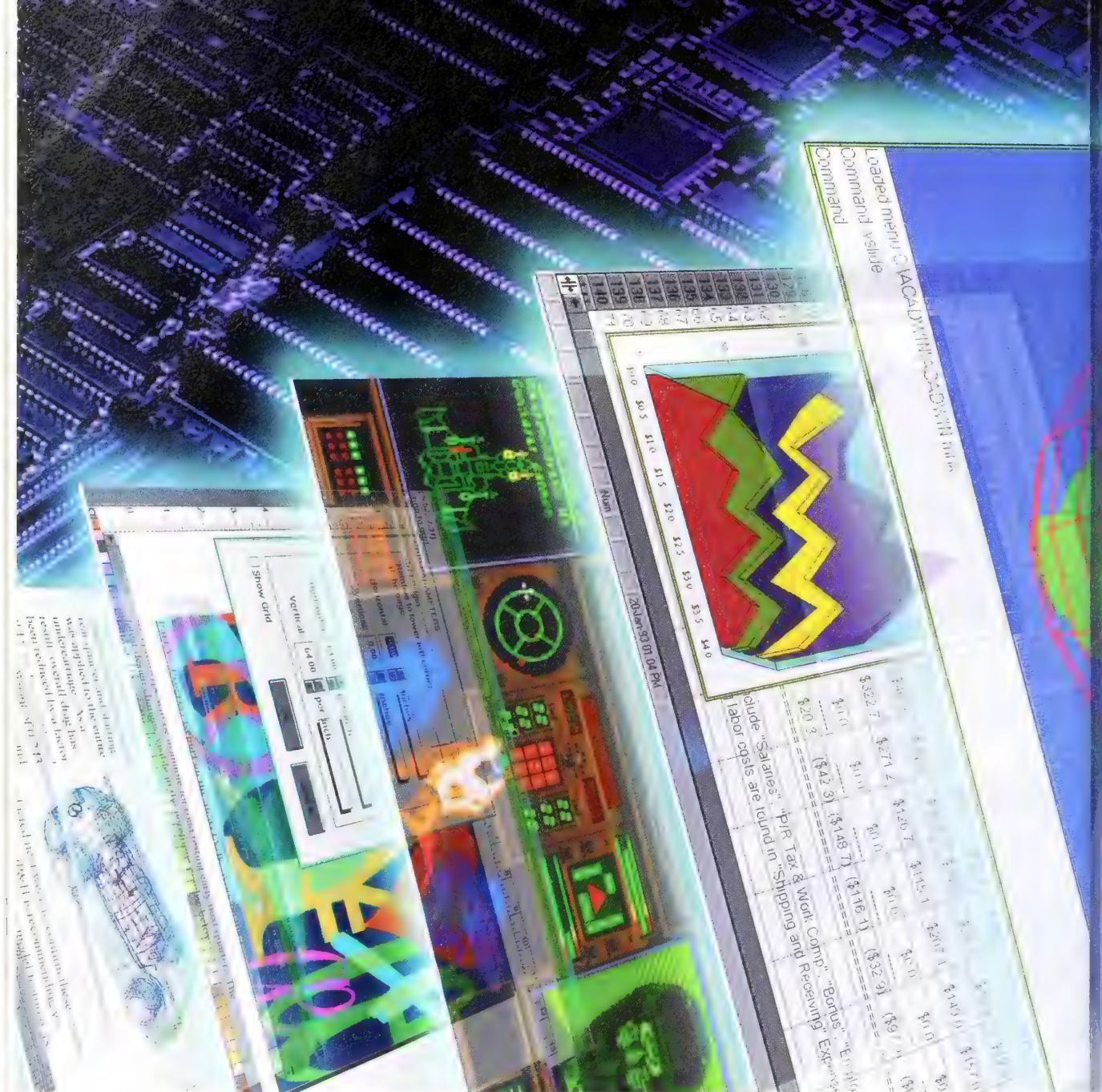
"speed" money or "grease" to approve licenses inflates business costs. Mafia control of markets, sanctioned by paid-off police and politicians, raises prices to consumers. Tax officials who take bribes and then allow income to go underreported deprive national treasuries of significant revenues. And high government officials who use foreign aid to purchase pricey, unneeded equipment—and get a kickback from the seller—divert resources that could be spent usefully.

More and more, international-aid officials, business executives, and political leaders are recognizing the costs of corruption and the need to address the problem. Indeed, a new nonprofit group, Transparency International, is dedicated to reducing corruption (page 136). Econ-

omists believe that there are two ways to do so. First, political and economic competition within countries must be encouraged. Second, institutional reforms, such as raising the pay of civil servants, must be adopted.

LOOKING OUT FOR NO. 1. The worst consequences occur in developing countries. The direct costs of money stolen or wasted may not be great, but the indirect costs are enormous because corruption distorts incentives. In extreme cases, corruption becomes the only way to make an income or conduct a business. "The real cost of corruption lies in the demoralization, cynicism, and enervation of entrepreneurial activity throughout the Third World," says Robert Klitgaard, an economist at the University of





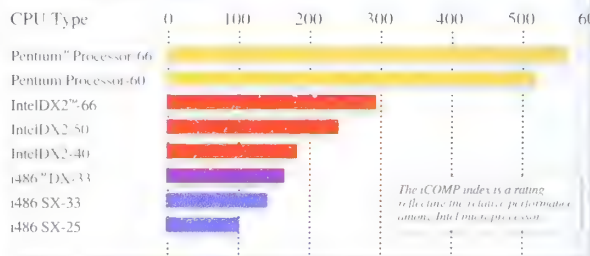
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Natal in Durban, South Africa, and author of *Controlling Corruption*.

Ironically, some of the countries where corruption seems to have grown most rapidly in recent years are those, such as China and Russia, where economic competition is rising. That's because initially, at least, economic growth presents new opportunities for people to grab something for themselves. But both countries have a long way to go in developing demonopolized, highly competitive economies. And neither country—not China with its communist leadership, nor Russia, with its nascent political parties—can boast of political competition.

FREE-FOR-ALL. For both countries, corruption is costly. According to Hong Kong's Independent Commission Against Corruption, outright bribes as well as gifts or payments to establish *guanxi*, or "connections," in China average 3% to 5% of operating costs, or \$3 billion to \$5 billion, assuming most of this year's \$100 billion in foreign investment went into operations.

An internal report of the Chinese government, reported in the Hong Kong press last month, found that over the past decade, Chinese state assets have fallen by more than \$50 billion, primarily because corrupt officials have deliberately undervalued them in trading off big property stakes to private interests or to overseas outfits in return for payoffs.

In recent years, corrupt local officials in many parts of rural China have diverted state funds intended for grain payments into speculative ventures. Meanwhile, in developed areas, particu-

larly in and around Shenzhen and Zhuhai, funds intended for infrastructure and other projects have gone into speculative real estate deals whose main attraction was their potential for bribes and "grease" payments.

In the former Soviet Union, where corruption was once the domain of the communist leadership, the end of party rule unleashed a com-

ski market in Moscow were 15% to 20% lower than usual.

Foreigners doing business in Moscow find that bribery is *de rigueur*. The latest scam, according to one Western lawyer, is to direct a foreign business to locate and register an office in Moscow to a "commercial structure" that does the paperwork for a company which is pocketed by city officials to operate the phony enterprise. **WEB OF PAYOFFS.** Systems to measure the cost of corruption around the globe are soon to be developed. Researchers at the World Bank plan to project to assess the cost of doing business of complying with government regulations in developing nations. A key objective will be to separate the costs attributable to bribes and other forms of corruption from legitimate business costs.

Developed nations are hardly immune from corruption, though they tend to suffer from less virulent strains. In the United States, for instance, there are frequent cases of local officials, police and government inspectors being found on the take. Scandals may flare, such as the savings and loan debacle in the United States, but these do not have long-term economic consequences.

The big exception among industrialized nations is Italy, where an elaborate web of relationships between the Mafia, politicians, and business executives has been exposed. Five former Ministers and several former Carabinieri officers are under investigation for criminal activities, hundreds of executives



Corrupt activity	Economic cost
Government bureaucrat accepts "speed" money to issue licenses	3% to 10% premium above licensing fee
Organized crime, with sanction of local officials, controls and sets prices in markets	Goods sell at 15% to 20% premium
Tax collectors permit under-reporting of income in exchange for a bribe	Income tax revenues reduced by up to 50%
Government officials order expensive capital goods, or overpay or overinvoice for public works, in exchange for kickbacks	Goods and services priced 20% to 100% higher than necessary

DATA: ROBERT ULTRAARD, CONTROLLING CORRUPTION (UNIVERSITY OF CALIFORNIA PRESS, 1990); WORLD BANK, THE EFFECTS OF CORRUPTION ON ADMINISTRATIVE PERFORMANCE 1988; BUSINESS WEEK

petitive free-for-all in corrupt practices. In the *rinky*, or markets, in major Russian cities, for instance, organized criminals typically set prices and threaten anyone who undersells them with violence. Last summer, experiments were tried at food markets in St. Petersburg and Moscow, with policemen, former KGB officers, and cossacks offering protection against the mob enforcers. The result: Prices to shoppers at the Danilov-

A NEW GLOBO-COP FOR CROOKS IN HIGH PLACES

There was a time when business executives, bankers, and aid officials from the industrialized world held their noses, forked over bribes to officials in places from Kenya to Argentina, and told themselves: At least these leaders are on the right side of the ideological divide. The end of the cold war changed all that. Now, the economic costs of corruption are apparent to everyone—even, increasingly, to many Third World figures who may be tempted by corruption—and there's no excuse for protecting the bad guys.

This change of spirit is behind a new, nonprofit group, Transparency International, dedicated to combating

"grand" corruption involving corporations and holders of public office in countries around the world. TI wants governments and corporations to behave in a more "transparent," and hence, honest, fashion. It counts among its founders and directors former World Bank officials and anticorruption experts from Africa and Asia, and it has already sent a team to Ecuador, at the government's request, to devise a program for fighting graft. Modeled on Amnesty International, Berlin-based TI, founded last May, is receiving support from European aid agencies and a few multinationals such as General Electric Co. and Boeing Co.

Since the 1977 passage of the Foreign Corrupt Practices Act, U.S. multinationals have been at a competitive disadvantage with foreign companies many of which may deduct bribes as a cost of business. But TI representatives think foreign multinationals should be convinced that corruption's damage is so great that they must join the battle. "This is a problem that transcends moral, economic, and political issues," says Fritz F. Heimann, associate general counsel at GE and head of the U.S. chapter of TI. "It's not an issue that can be fought on the basis of competitive advantage or disadvantage."

By Karen Pennar in New York

"The Supra easily outgrips the Ferrari 512 TR and the Porsche 911 Turbo, is more stable in abrupt maneuvers, and digs to a halt with near identical determination."

Road & Track/August, 1993

"The Supra Turbo is an absolute beast."

Automobile Magazine/April, 1993

"The brakes are magnificent—I've never tried better."

Car and Driver/September, 1993

"There is every reason to believe that the Toyota Supra Turbo, at about one-fifth the financial assault of a Testarossa, can match the legendary Ferrari's pace on just about any twisted piece of asphalt. Ditto the \$100K Porsche."

Road & Track/August, 1993

"Supra Turbo is the MVP (Most Valuable Performer) of the Automotive Dream Team."

Motor Trend/August, 1993

These Are The Reviews. Imagine The Performance.

"The intercooled sequential twin-turbo version is the real adrenaline pump. When both turbos are spooled up, there's 320 hp on the Supra's tap."

Popular Mechanics/March, 1993

"The ante to compete in the world's order of ultra-performance cars has just been raised. The Toyota Supra Turbo is the new Top Gun."

Motor Trend/August, 1993

"The Supra Turbo does what few other cars in history have been able to accomplish: Combine exoticar performance with luxo-coupe grace and deliver it all at a price that won't cause angina pectoris."

Motor Trend/August, 1993

"...could be history in the making."

Road & Track/March, 1993

"A world beater."

Car and Driver/September, 1993

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And Crossed The Line.

have been implicated for paying bribes, and the once indomitable Mafia's powers have been curbed. Franco Cazzola, professor of political science at the University of Florence and author of a recent study on corruption, observes that businesses and politicians conspired "to raise the price of [projects] which could be done for far less."

Near Enna in central Sicily, highway overpasses were built on towering concrete pillars—even though the surrounding land is flat. In nearby Calabria on the mainland, dams stand unfinished. And all over Southern Italy, superhighways to nowhere begin and end abruptly. The Luigi Einaudi research center estimates that corruption has inflated Italy's total outstanding government debt by as much as 15%, or about \$200 billion.

PAYING FOR PERFORMANCE. Italy's political system is now undergoing reform, and numerous state-owned companies are being auctioned off. That should help reverse the conditions that economists Andrei Shleifer of Harvard University and Robert W. Vishny of the University of Chicago believe foster corruption: a lack of political and economic competition. Corruption flourishes when

regimes exercise monopoly power, as was the case in Soviet Russia and Eastern Europe. Today, these regions are in transition, and chaotic conditions and weak governments have allowed new corruption opportunities to arise.

Over time, however, the development of a more competitive political process, as exists in most industrialized nations,

In central Sicily, highway overpasses were built on towering pillars—though the surrounding land is flat

should mitigate against graft and patronage. Healthy economic competition also works against corrupt practices taking hold. Privatization of businesses, followed by demonopolization, is needed.

Further, economists say, incentives to civil servants must be changed. When there is little chance of getting caught or punished, and little income from an honest day's work, taking a bribe seems reasonable. In Singapore, where corrup-

tion is relatively infrequent, notes World Bank economist Ed Campos, civil servants are "very well paid compared to people in the private sector and compared with civil servants around the world." At the same time, stiff penalties are assessed against corrupt officials. Poorer countries may choose "pay for performance"—as Bolivia did in 1985, when customs workers received a percentage of the 60% increase in customs revenues.

Although the fight against corruption appears to be an uphill one, the conditions that encourage corruption can be reversed. Today, in Italy, bids for public works projects are coming in at up to 40% below initial cost estimates. If the Italian government could save \$1 billion this year alone by not bearing the cost of corruption, the Luigi Einaudi research center predicts. On many grounds alone, of course, it's desirable to reduce the decay and rot that corruption brings to a society. But pure economic calculus makes the effort even more worthwhile.

By Karen Pennar in New York, Peter Galuszka in Moscow, David Dorf in Hong Kong, and Raphael J. in Rome

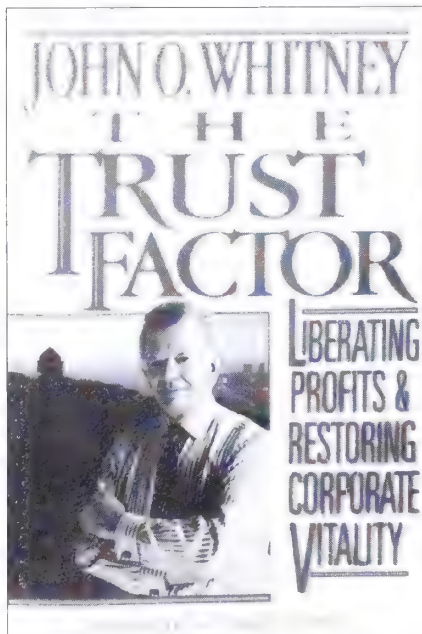
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THE YIELD GAME

TO WIN IT, YOU'LL HAVE TO TAKE A FEW CALCULATED RISKS



"High Yields Without High Risk!"

So reads a recent ad in *The New York Times* for the Dreyfus Short-Term Income Fund. And that also neatly sums up the most daunting challenge facing the investing public today: How do you get high yields in a low-yield era?

Welcome to the Yield Game. Investors are being forced to play—and for the most part, they're losing.

There are so many ways to lose. High-fee, minirate bank accounts have become a standard part of the cash-management landscape despite far more attractive alternatives. Mortgage-backed securities are a mine field for even the most sophisticated investors (page 150). But probably the most painful way to lose the Yield Game is to swallow the conventional wisdom on Wall Street—that it's foolhardy to reach for yield by buying fixed-income securities and high-dividend stocks.

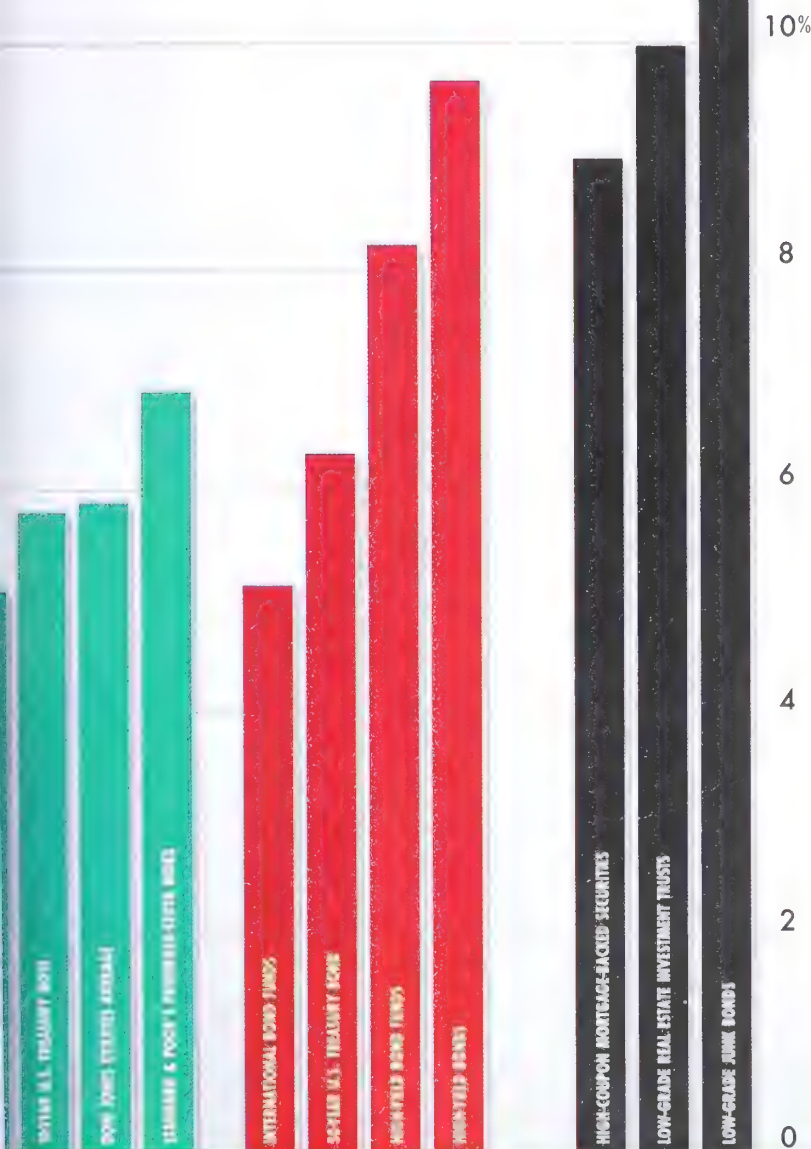
SAFETY FIRST. It's an argument that has been fed by the inflation jitters of recent days, which have seen rates climb because of better-than-expected economic growth numbers. The Street's rationale is that inflation is just over the horizon and will cause principal values to decline. It's an argument that used to make sense. But the pursuit of high income, as an end in itself, is a smart strategy nowadays. The threat of inflation will occasionally result in rate upticks—but don't be deterred. This is, after all, an era of disinflation, in which low interest rates are likely to last for the foreseeable future. With global competition dampening prices across the



board, interest rates should stay flat, reducing the threat to total returns from declining asset values.

Of course, there are plenty of potential pitfalls in the hunt for yields. Some of the highest-yielding investments, such as junk bonds and mortgage portfolios, carry with them unacceptably high risks. Real estate investment trusts, which are among the highest-yielding equities, are

likewise rife with peril. And 30-year Treasuries would lose market value if interest rates were to suddenly climb. Still, you can get steady, reliable yields that more than compensate you for the risks you take. Indeed, rates that are mouth-watering in even the "good old days"—8% or better for some safe, high-yielding stocks and bonds—are not out of reach. And such income can be reaped



MODERATE
More market risk and lower credit quality. But in a world, both risks are taking.

HIGH
Pushing out the edges of credit quality or market risk, some with a measure of currency risk as well.

UNACCEPTABLE
Yields that are often indistinguishable from high-risk investments, but hidden perils make them yield traps.

putting capital at unreasonable risk. Fred Quirsfeld, manager of 2.5 billion IDS Bond Fund: "In this fast-rate environment, you're better off focusing on investments with high potential rates over Treasuries." The pages that follow, BUSINESS WEEK sets forth a comprehensive plan for playing the Yield Game and winning. We've divided the playing field

into five territories: Negligible Risk, Low Risk, Moderate Risk, High Risk, and Unacceptable Risk. Everybody ventures into the first territory, for even high-rollers keep money in the till while waiting for opportunities to arise. But the way to win the Yield Game is to expand your risk horizons—while keeping an eye peeled for the tax collector.

When it comes to managing risk, in-

vestors are notoriously chicken-hearted. For decades, fixed-income investors, haunted by the Great Depression, clung to the "safety" of government bonds and shunned risk. The results were disastrous: From 1940 to 1980, as inflation accelerated, interest rates increased and undercut the principal value of their creditworthy bonds. Government bonds earned a 2.3% total annual return, while inflation weighed in at 4.3%, according to Ibbotson Associates.

NEW MATH. With inflation on the wane worldwide, the time is ripe to move into income-producing investments with longer maturities. "Most individuals' investment horizons are longer than a couple of years," says Ron Ryan of Ryan Labs Inc., a fixed-income research firm. "But they try to meet it with short-term investments. Mathematically, it's not going to work. You have to go for longer maturities." This is especially true for cash in 401(k) and retirement plans.

How risk-averse have investors become? One indication is a recent study conducted by the Gallup organization for the Employee Benefit Research Institute. It found that a whopping 69% of investors favored low-risk, low-return investments, while 25% were willing to take high risks. No wonder money-market funds are oversaturated with cash even as money-market and bank rates have gone into a tailspin. During the 12-month period that ended Sept. 30, passbook and money-market deposit accounts actually grew by 4.3%, to \$1.2 trillion, and money-market mutual-fund assets declined by a mere 1%.

Emerging from the money-market womb would be painful for most investors—but it's overdue. And with the economy's gradual improvement, it's also a good idea to move a little lower on the credit-quality spectrum. As business improves, so does borrowers' ability to meet their obligations. Likewise, income-seeking investors should consider tax-free investments, whose benefits have never been so evident. Tax-free money-market mutual funds, bond funds, and individual munis offer yields that frequently beat the equivalent payouts—adjusted for taxes—of taxable instruments. A municipal money-market fund yielding 2.5% is equal to a taxable fund yielding 3.9% for those in the 36% tax bracket.

The search for higher yields can be as simple as switching from a money-wasting checking account to a top-drawer money-market fund. Whatever path you take, don't be spooked by inflation worrywarts. Even total-return-oriented pros agree that a continued disinflationary environment argues in favor of income-oriented investments. Frederick B. Tay-

lor, chief investment officer at U.S. Trust Co. and a stern critic of yield-oriented strategies, observes that "if it's a given that rates will stay where they are, it takes a lot of the risk out of high-yield investments."

Safety and yield—the two are not incompatible. Here's how to get one while not sacrificing the other.



NEGLIGIBLE RISK

MAKING THE MOST OF MEAGER RATES

The collapse in interest rates has decimated returns on supersafe cash-like accounts. Microscopic yields on checking, money-market deposits, certificates of deposit, and money-market mutual funds have prompted millions of people to move their money into longer-term investments. But there are also millions who shun all forms of risk and have left more than \$1 trillion in these accounts, losing billions each year in interest.

Almost everybody needs a bank account, and bankers understand this well—they've slashed their rates the most. In April, 1989, the average yield on interest-bearing checking accounts was 5.15%. Today, it's a scant 1.65%—a 68% decline. That's nearly twice the percentage decline in yield on long-term bonds over that same period.

People don't have to settle for what the local bank is paying. They can increase their yields with no loss of safety by moving money to out-of-town banks or money-market mutual funds. That's a jarring thought, particularly for risk averse individuals. "People like to be able to 'visit' their money," says Robert Heady, publisher of *Bank Rate Monitor* in North Palm Beach, Fla. "But there's no less safety in a bank 2,000 miles from

home than one that's down the street."

So don't hesitate to send your cash out of town, if that's where the higher yields are found. First Signature Bank & Trust in Portsmouth, N.H., pays 3.28% in a money-market deposit account—almost 37% higher than the national average of 2.39%. Southern Pacific Thrift & Loan Assn. in Culver City, Calif., pays 3.98% on a six-month certificate of deposit and 4.08% on a one-year CD. Both are at least a percentage point over the national average.

There's even a better alternative to the low-yield checking account—United Services Treasury Securities Cash Fund, a money-market mutual that currently pays 2.13%. It isn't guaranteed by the Federal Deposit Insurance Corp.—no mutual funds are—but it invests only in short-term Treasury securities guaranteed by the "full faith and credit" of the government and repurchase agreements, which are short-term borrowings collateralized by Treasury securities. The minimum investment in the fund is \$1,000, and investors must also maintain an average monthly balance of \$1,000.

Sure, there are money-market funds with higher yields, but United Services Treasury Cash Fund has something most don't—unlimited check-writing privileges, with no minimum on the amount of a check. Most money funds offer checking but require that each check be written for at least \$500—making them impractical for everyday transactions.

TAX TRICKS. With careful fund shopping, an investor can bolster the yields from money-market funds. You can eke out 0.20% in yield by switching to a money fund that invests mainly in corporate and bank issues rather than governments. But don't make the switch without weighing the tax consequences. Most government-securities money funds are exempt from state and local income taxes, while conventional money funds—and bank accounts—are not.

The Permanent Portfolio Treasury Bill Fund takes a different tack. It converts ordinary income into capital gains. The fund invests like the most conservative of money-market funds—Treasury bills only—but unlike money funds, it doesn't pay regular dividends and does not maintain the net asset value at \$1 per share. The fund is earning 2.41%, a little below what most U.S. Treasury money-market funds yield. But investors who hold their shares for more than a year will reclaim their interest as capital gains. That limits the maximum tax rate

to 28%, vs. 39.6% for ordinary income.

Even better than deferring taxes avoiding them. Investors, if they take a little more risk, can get a lot more return by moving cash into tax-exempt money-market mutual funds. These funds are like regular money-market funds but invest in very short-term

municipal paper. Among the most tax-tasteful funds, Strong Municipal Money Market Fund has long been a top performer. Its 2.49% yield is equal to 3.89% in a taxable money fund for an investor in the 36% tax bracket.

High-income investors may prefer high-tax states may prefer to choose a single-state tax-exempt money-market fund. They are a bit more conservative, since all their holdings are in one state. Still,

yields can more than compensate for slightly higher risk. A Californian in the highest federal and state income tax bracket now pays a combined 50% on income. The 2.41% yield on the City of Spartanburg Municipal Income Market Portfolio amounts to the equivalent of nearly 5% on a taxable investment for a California taxpayer who pays the highest federal and state taxes. There is no comparable taxable investment that yields anything that high.

What's crucial in the yield game is not what you earn but what you save.

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THE BEST NO-RISK INVESTMENTS

UNITED SERVICES TREASURY SECURITIES CASH FUND	2.1%
Allows unlimited check-writing with no minimum size; substitute for checking account	
PERMANENT PORTFOLIO TREASURY BILL FUND	2.4%
Unusual structure turns current income into capital gains for favorable tax treatment	
STRONG MUNICIPAL MONEY-MARKET FUND	2.4%
Consistently one of the highest-yielding tax-free money funds	
6- AND 12-MONTH CERTIFICATES OF DEPOSIT	3.9%
SOUTHERN PACIFIC THRIFT & LOAN CULVER CITY, CALIF.	4.0%
Highest yields on federally insured deposits	



LOW RISK

CLIMBING THE YIELD CURVE

Fixed-income investors may think the fixed-income market an unfriendly place right now. But one facet of that market works in their favor. The "shape" of the yield curve, or the line that's drawn when you connect the dots of the maturities of bonds, is very friendly to the risk-averse investor. One of the most attractive rates on the yield curve kick in at the one-to-two-year range.

That's because the curve is "steep"—it makes big jumps from maturity to maturity. A one-year U.S. Treasury note yielding 3.63%, may look paltry, but step out a little bit on the curve, and by comparison, a two-year Treasury note, at 4.2%, is downright sweet. Move out to three years, and the investor earns 4.57%—almost a percentage point over the one-year bill. Or think of it this way: Choosing the two-year Treasury note over the three-month Treasury bill boosts income by 43%. In fact, analysts believe that a Treasury note up to five years' maturity at 5.16% yield—is a pretty good deal.

Even smarter way to play the government-market is through prerefunded municipal bonds. The "pre-refunds" created in recent years as interest rates tumbled. Unable to retire the debt, the municipalities issued new bonds with lower rates and set aside some of the proceeds to buy enough government bonds to pay off the maturing interest and principal on the old bonds. The pre-ref's income comes from a

cache of U.S. bonds, but it's still tax-exempt to the bondholder.

The pre-ref may well be one of the best bond investments, taxable or tax-exempt. For most investors, the tax-equivalent yields on pre-ref's beat anything available in U.S. government securities. Look at a prerefunded issue of the Metropolitan Sanitary District of Greater Chicago. The bonds were originally set to mature in 2001, but because of refunding, will be redeemed in four years. The interest and principal no longer depend on the finances of the authority but on the government bonds that are in escrow. The yield to maturity is a tax-free 4.25%, while Treasury notes of similar maturity would fetch almost 5%. To the investor in the 36% tax bracket, that prerefunded muni offers the equivalent of 6.64%. Yields are so generous that even an investor in the 28% tax bracket would come out ahead.

Hugh R. Lamle, the head of fixed-income and quantitative analysis at M. D. Sass Investors Services, says pre-ref's are better than AAA-rated munis and insured munis. "Triple-A bonds can be downgraded," he notes, "but a pre-ref can't." And insurance is only as good as the insurer. "You're well-covered if a single issuer defaults," he says. "But I would be concerned if there were widespread defaults."

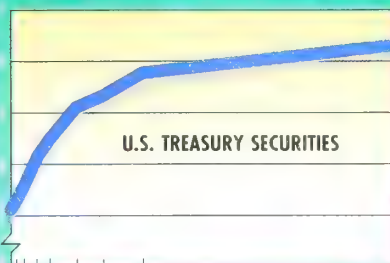
LOOK TWICE. At first glance, pre-ref's may not look attractive. Since their interest payments were set when rates were far higher, the bonds sell well above par. Go back to the Chicago sanitary district bonds. The annual interest rates amounts to 7.7%, or \$77 per \$1,000, which was the market rate when the bonds were issued in 1986. Because of the high coupon, that bond now sells for 113, or \$1,130. The current yield, about 6.8%, is nearly double what a four-year issue would pay if the bond were issued anew.

So what's the rub? A guaranteed \$130 loss? Not really. You get less back at redemption, but because of the high coupon, you get more than your share of interest with every coupon payment. In effect, you're getting a piece of your principal, too.

Beyond Treasuries and some selected municipal bonds, most low-risk investors could benefit best by placing their money in a short-term-bond fund. These funds keep the portfolio maturities in the two-to-four-year range, so market-price fluctuation caused by interest-rate swings should be kept to a minimum.

Many of the short-term funds have

THE STEEP YIELD CURVE BECKONS



U.S. TREASURY SECURITIES

GOOD YIELDS WITH LOW RISK

U.S. TREASURY NOTES

TWO-YEAR	4.20%
THREE-YEAR	4.57
FOUR-YEAR	4.90
FIVE-YEAR	5.16

- ▶ No credit worries
- ▶ Exempt from state and local income taxes
- ▶ Little risk from rising rates

ARLINGTON (TEX) GENERAL OBLIGATION BOND

To be refunded May, 1997 4.13%

METROPOLITAN SANITARY DISTRICT OF GREATER CHICAGO

To be refunded Jan., 1998 4.25

ATLANTA GENERAL OBLIGATION BOND

Due Dec., 2003 4.85

- ▶ Up to 10 years to call or maturity
- ▶ Backed by U.S. Treasury or agency bonds
- ▶ Great buy-and-hold investments
- ▶ Yields can be more than 80% of a high-grade taxable bond

FIDELITY SHORT-TERM BOND 4.71%

T. ROWE PRICE SHORT-TERM BOND 5.69

SCUDDER SHORT-TERM BOND 5.66

STRONG SHORT-TERM BOND 6.50

VANGUARD FIXED-INCOME SHORT-TERM CORP. 4.81

- ▶ No-load funds
- ▶ Can usually beat Treasuries by adding corporates and mortgage-backed securities
- ▶ Some principal may be at risk

Beyond TREASURIES AND MUNIS ARE A HOST OF SHORT-TERM FUNDS

Cover Story

other bells and whistles that keep their yields several percentage points above the Treasury yield curve. They feed their investors' cravings with yield enhancers such as premium coupon bonds or inverse floaters that actually increase their payments as interest rates decline.

But be forewarned that the highest-yielding funds may not be the funds with the highest total return. Yield-enhancement strategies are not foolproof. Inverse floaters can plunge in value if rates creep up, and premium bonds erode net asset value as they mature toward par. The Scudder and Strong short-term-bond funds, for instance, had 8% yields during 1992 but suffered losses in net asset value. Still, their total returns were well that of a three-year Treasury. But funds don't necessarily need yield boosters to make money. The Vanguard Short-Term Corporate Fund had only a 6.4% yield, but coupled with a small measure of appreciation, earned a 7.3% total return.

Short-term, tax-free funds usually provide yields more in line with the general level of interest rates. Now, most of the short-term, tax-free funds yield only 3% to 3.5%. While that may be attractive to the high-tax-bracket crowd, this is where investors may opt for the taxable, which yields almost twice as much.



MODERATE RISK

INCOME DOESN'T HAVE TO BE FIXED

Here's a notion that will set the most diehard coupon clipper's teeth on edge: Buy stocks. Not Boston Chicken or Starbucks, which sell at astronomical multiples of earnings. But good, sensible companies that pay relatively high dividends and thus have a lower volatility than the stock market in

general. They fit well into the portfolios of those fixed-income investors who are willing to take a moderate amount of risk for a potentially higher reward.

Indeed, a mix of good dividend-payers can add something to a portfolio of moderate-risk bonds. Because profitable companies increase dividends over time, stocks can add incremental income. A fixed-income portfolio is exactly that: fixed.

True, bonds have delivered super returns for the past few years, mainly because interest rates plunged. But if interest rates stay stable, what you see right now is all you're going to get.

Of course, stocks are more volatile than bonds. But if investors have a long-time horizon, buying stocks for yield is an attractive alternative. Consider that Bristol-Myers Squibb sells at 60%, with an annual dividend of \$2.88 per share. That's a 4.8% yield, almost the same as that of a four-year Treasury note. Buy Bristol, and collect a dividend for four years. If the drugmaker's stock is higher than it is now—a reasonable assumption—you've come out ahead.

That could have been said about IBM several years and dividend cuts ago. Investors need to diversify—not only among different stocks but across industries. Industries where dividends are above average include banking, drugs, energy, and utilities (table, page 146).

Electric utilities have long been a favorite for their high yields. Richard C. Young, an investment adviser who publishes the *Intelligence Report*, is one of a growing number of pros wary of electricies. "Regulators are getting tougher, and utilities face big liabilities from decommissioning nuclear plants," says Young. Instead, he recommends natural gas and telephone utilities for dividend growth and some preferred stocks for current yield.

PAPER STEW. For investors who would rather buy a mutual fund of dividend-paying stocks, there are plenty to choose from. Most equity-income funds fit the bill: They generate income by investing in equities with above-average yields. They also sprinkle their portfolios with bonds, preferred stocks, and convertible securities that can turn into common stock if the company does well.

That's the strategy of the Lindner Dividend Fund, which recently reopened to new investors. It shut its windows in March because it was swamped with new money and what portfolio manager Eric Ryback thought was a dearth of good places to invest it. Today, he says,

BUYING STOCKS FOR YIELD MAKES SENSE—IF YOU HAVE PATIENCE

he's finding more opportunities. The fund sports 6.5% yield.

While high-yield stocks will likely do better in the long run, many yield-seekers concerned with bolstering income. With that in mind, the 10-year Treasury bond, with a 5% return, looks good—although perhaps a better buy than the 30-year bond, which

yields less than half a percentage point higher but is riskier. If rates rise, the market value of the 30-year bond will fall almost twice as fast as the 10-year bond because of its longer maturity.

Mutual funds that invest in gov-

TREASURES FOR MODERATE RISK-TAKER

TAXABLE MUTUAL FUNDS

LINCOLN DIVIDEND	6.50
MANAGERS INTERMEDIATE MORTGAGE	8.29
STRATTON MONTHLY DIVIDEND SHARES	5.80
WPG GOVERNMENT SECURITIES	5.85

TAX-FREE FUNDS

FIDELITY AGGRESSIVE TAX-FREE	5.57
T. ROWE PRICE TAX-FREE HIGH-YIELD	5.84
SIT 'NEW BEGINNING' TAX-FREE INCOME	5.57
VANGUARD MUNICIPAL INTERMEDIATE	4.50

TAXABLE CLOSED-END FUNDS

ACM MANAGED MULTI-MARKET	7.9
WFS CHARTER INCOME	8.7
WFS GOVERNMENT MARKET INCOME	8.2
FUTNAM INTERMEDIATE GOVERNMENT INCOME	6.9

TAX-FREE CLOSED-END FUNDS

ACM MUNICIPAL SECURITIES INCOME	6.9
MUNICIPAL INCOME OPPORTUNITY II	7.2
BUVIER PREMIER INCOME 4	6.4
SELIGMAN QUALITY MUNICIPAL	6.2

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SEEKING HIGHER YIELDS THROUGH STOCKS

HIGH-YIELD COMMON STOCK

Stock	Price	Yield
ATLANTA GAS LIGHT	35 1/4	5.9%
ATLANTIC RICHFIELD	109	5.1
BRIISTOL-MYERS SQUIBB	60 1/2	4.6
CALIFORNIA WATER SERVICE	39	4.9
FIRST MARITIME	24 1/2	4.6
GTE	36 1/2	5.1
PORTLAND GENERAL	19 1/2	6.2
ROYAL DUTCH PETROLEUM	101 1/2	4.1
SCE	19 1/2	7.1
TEXAS UTILITIES	43 1/2	7.1

PREFERRED STOCK

NARRETT BANKS P.F. C	66 1/2	6.0
FEDERAL PAPER BOARD P.F. A	50 1/2	5.7
CINCINNATI FEDERAL BANK P.F. B	23 1/2	9.9
MORGAN STANLEY P.F. C	26 1/2	8.3
ROYAL BANK OF SCOTLAND P.F. C	26 1/2	9.0

SEEKING HIGHER YIELDS THROUGH STOCKS: A LIST OF HIGH-YIELD COMMON STOCKS AND PREFERRED STOCKS.

Herzfeld. "The risk-reward relationship is very favorable."

The most attractive closed-end funds are those that sell at a discount to the value of their portfolios. Buying them at discount is like buying a bond that's selling below par. The yield is higher, since investors have to lay out less money for the same payout. That has led to rates of 8.7% on MFS Charter Income Trust and 8.2% on MFS Governments Market Income Trust, both taxable funds, and 7.2% on Municipal Income Opportunity Trust II and 6.9% on ACM Municipal Securities Income Fund, both tax-free.

In addition, says Herzfeld, the discount is likely to narrow or disappear, adding a capital gain to the investment as well. What if the discount fails to narrow or even widens? No problem, he adds. "A big discount is an embarrassment to the managers, and they'll do something about it," says Herzfeld. "The management could buy back shares

to finance American Standard's 1988 leveraged buyout were down 17%, than offsetting their 12% coupon.

Today, American Standard investors are, well, flush with success. The fund recently earned an upgrade from Standard & Poor's Corp. They've recovered all their lost value yet yield a healthy 10%—making them a tempting buy for yield-parched investors. American Standard's porcelain-solid indebtedness is an example of the opportunities facing come-seeking investors who are willing to take on a bit more risk. "There are plenty of companies out there with ample cash flow, management with a incentive to get rich, and uniqueness in the product or resistance to economic pressure"—the hallmarks of a top-draw junk-bond company, notes Richard Swingle, who runs the T. Rowe High-Yield Fund. American Standard meets all those criteria, and it is one of the more visible holdings of Swingle fund, which is up 20% this year.

Sure, there are plenty of caveats for risk-seekers. The difference between a risky investment and an unwise one can be subtle (page 150). But investors should take more risk, particularly when it comes to junk bonds and the managers that buy them. "In recent years, junk yield mutual-fund sales have comprised only 3% of all fund sales—so they're a blip on the horizon," notes Michael Fridson, chief high-yield analyst at Merrill Lynch & Co. That's a shame, because junk is likely to do well at a time when inflation and rates are low, and the economy shows signs of recovery.

BAD RAP? High-yield funds such as those offered by Invesco, T. Rowe Price and Vanguard are probably the best way to buy into junk bonds. Junk funds provide diversification while sparing investors the high transaction costs and steep ask spreads that are the bane of investors who buy individual junk bonds. Even for the most liquid issues, spreads can be as high as three to four percentage points and are not uncommon.

Buying into a fund can get you a swell yield—8.1% is the average net yield of junk funds—with less volatility than you might think. According to Morningstar, the standard deviation—a measure of volatility—of junk funds averaged 2.1% over the past decade, even taking into account the 10% decline suffered by junk funds in 1990. That makes junk funds less volatile than plain-vanilla equity income funds, which have a reputation for being far less risky.

Mortgage-backed securities are another potential source of nifty yields. Such securities are backed by home mortgages, and the risk you run is that homeowners will refinance when interest

rates fall. mortgage-backed securities should also fare well. As interest rates plunged, many of the funds were hurt when hordes of homeowners refinanced and repaid their mortgages. But should interest rates remain fairly stable, mortgage funds should deliver higher than Treasury yields without undue risk. "We buy government-agency paper that has a higher interest rate than the 30-year bond but has an average life of only three to five years," says Worth Bruntjen, who runs Managers Intermediate Mortgage Fund.

Bruntjen also bolsters returns by using mortgage instruments that pay either interest or principal only. True, some money managers, and indeed some big Wall Street trading firms, have lost bundles trading these derivatives, but Bruntjen has used them with aplomb. So far this year (through Oct. 31), the fund has earned 12.4%, nearly double the mortgage-fund average. The fund's current yield is 8.25%.

PRIME TIME. Perhaps even more alluring than fixed-income mutual funds are closed-end bond funds. They differ from mutual funds in that they do not take in new money or redeem shares. Instead, fund shares trade like stocks. Closed-end fund guru Thomas J. Herzfeld says the funds have been hit by a wave of selling, driven by the uptick in interest rates and by year-end portfolio shuffling. "It's bargain time for the funds," says

or merge it into a mutual fund." Any way you slice it, these closed-ends are a risk that is worth taking.



HIGH RISK

DON'T BURN YOUR FINGERS

At the depths of the depression in junk bonds in 1990, it seemed as if investors in American Standard Inc.—the nation's largest manufacturer of toilets—had flushed their money down the you-know-what. Junk bonds issued

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JPMorgan

drop. But there's less refinancing risk for securities yielding at the prevailing rates, which are about 6.5%. Another rule of thumb is to buy mortgage-backed securities at par or below. High-rate issues trade at above par, but you get paid back at par when people refinance.

Real estate investment trusts also offer swell yields, but the pitfalls can be significant, too. Many REITs coming on the market nowadays are issued by developers cashing out of their crummiest properties. The payouts to investors—6% or so—are not so hot by real estate standards. REIT mutual funds pay out even less, 5% or below. Still, REIT funds are the safest way to play the REIT game. The worst way is to buy one of the higher-yielding REITs, which pay out 10% or better but usually have the least desirable properties.

Foreign bonds are another tempting but hazardous prospect. This is one area into which it is foolhardy for individual investors to venture without the protection of mutual funds. Currency risk tends to be muted in these funds because of hedging, but hedging cuts into yield. And tracking overseas economies is tough for most individuals. It's easy to be tempted by the 8½%-yielding Spanish government bonds—until you realize that the Spanish economy has a core inflation rate of more than 5%. That makes the real interest rate 3%, which you can get on these shores.

So unless you're a matador of international finance, stick with high-yielding investments that you can understand. American Standard may not be the epitome of glamour, but it would sit well in most portfolios.

A HIGH-RISK SAMPLER

Investment class	Yield
INDIVIDUAL JUNK BONDS	9.8%*
▶ High bid-ask spreads can decimate yields	
▶ Hold-till-maturity strategies don't work, since most junk is restructured	
JUNK-BOND MUTUAL FUNDS	8.1%*
▶ Chief advantages are diversification and professional management	
MORTGAGE-BACKED SECURITIES	6.5%
▶ A steady income stream unless rates drop	
▶ Buy these only at par or below	
30-YEAR TREASURIES	6.3%
▶ The ultimate in safety	
▶ Market risk is the villain here	



UNACCEPTABLE RISK

CROSSING INTO THE DANGER ZONE

In the search for high yields, the traps are sometimes obvious. It doesn't take a PhD in finance to see that a junk bond yielding 25% is probably just a tad risky. But often the distinction between taking an acceptable risk—and cruising for a bruising—can be exceedingly fine.

Mortgage-backed securities are a good example. Exotic collateralized mortgage obligations—CMOs—confound even pros and are clearly unsuitable for individuals. Such “derivative” mortgage securities divvy up the principal and interest cash flows from a pool of mortgage loans. The result is a dizzying array of securities that differ in yield, quality, and liquidity. But simple mortgage-backed securities can also be treacherous. A Fannie Mae 30-year mortgage-backed issue yielding 9%, for example, is more desirable than a Fannie Mae 30-year mortgage-backed issue yielding 6.5%, no? Positively, definitely no, asserts Quirsfeld at IDS.

The not-so-hidden peril here is prepayment risk. Borrowers with 9% mortgages are refinancing as fast as they can, which means that owners of the 9% issue are seeing their holdings rapidly liquidate. That's no big deal if they bought the issue at par, 100. But they lose out if they bought at the current price, 106, because investors are repaid at par when homeowners refinance.

Investors in individual junk bonds face a different problem: lack of liquidity. With trading volume low, spreads between the bid and ask price of these five percentage points are common. Small quantities of junk bonds, turning a 12% yield into as little as 7%—means you would be better off with a junk bond fund. An individual bond can be held to maturity, but don't count on that happening. “There's a tendency for junk yield bonds to be retired long before maturity,” says Fridson.

One longstanding yield trap is the junkiest of junk—unrated issues, issues rated CCC or worse by Standard Poor's or one of the other rating agencies. The average yield for such issues is 14.5%, with some a lot higher. Because of the danger of default, such issues should only be bought as part of a diversified junk portfolio.

Another example of the pitfalls for yield-seeking investors can be found in the slew of “certificates” peddled to investors by equipment-leasing and mortgage-finance companies. There are, for example, the ones offered by Equipment Leasing Corp. of America (ELCOA) and sold to small-fry investors nationwide. The certificates may seem like bank CDs and are available for as little as \$100, but they offer rates between 7% and 9.5%. They're underwritten by tiny Pennsylvania brokerage, Welco Securities. ELCOA uses the money from the certificates to fund its leasing operations.

Here the risks are as subtle as Mt. Vesuvius. Among other things, the parent company of ELCOA, Walnut Equipment Leasing Co., is in such a shape that its ability to continue doing business is in doubt—and Walnut's demise could force ELCOA's liquidation, according to the ELCOA prospectus. Kenneth S. Sharkey, ELCOA's vice-president (and Welco's president), and Walnut's vice-president, agrees that there are substantial risks, but notes, correctly, that they are all disclosed in the company's prospectus.

The pitfalls in the hunt for yield are usually far less obvious than the red flags raised by ELCOA. Investors are being cheated by themselves—by reaching for higher yields. The era of high inflation is over and won't be for us again for a long time. Low rates are a fact of life. It's time to learn to live with them and reap the harvest of yield.

By Jeffrey M. Laderman and
Weiss in New York

Continued on page 15

capability:

INTERNATIONAL REACH



Illustration by Ajlin As seen in BusinessWeek International, February 15, 1993 Issue

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Commentary/by Christopher Farrell

THESE ARE THE GOOD OLD DAYS FOR BONDS



History does not repeat itself. But it rhymes.

—Mark Twain

It seems that hardly a day goes by without a money manager or an economist issuing a dire warning about bonds. For a generation seared by memories of high inflation and abysmal bond markets in the 1970s and early 1980s, inflation always lies just around the bend. Recent signs that the economy is gathering strength only reinforce the belief that robust growth will soon ramp up inflationary pressures. With interest rates now bouncing off their 20-year lows, the next big move in rates can only be upward.

So what should the investor do? Avoid bonds and put the money into stocks, advise many economists. After all, stocks outperformed bonds by a heady, inflation-adjusted six percentage points from 1946 to 1992. And for most of those years, inflationary pressures were on the increase. Little wonder that many forecasters, reared on the notion of an inflation-prone U.S. economy, discount the sharply lower inflation rates of the past several years and predict higher prices.

DEJA VU. Yet economists often underestimate how long a powerful downward price trend lasts, once it is in motion. Since 1857, periods of commodity price declines have averaged 22 years in the U.S., says Steven Nagourney of Lehman Brothers Inc. Certainly, disinflation, including large pockets of actual price declines, has become a force in the U.S. economy. Disinflation has been propelled mostly by the gale-force winds of international competition and by tightfisted central bankers, starting in the early 1980s. Today, the producer price index is fast approaching zero, and even previously immune sectors of the economy, such as the drug industry, are fiercely joining the discounting game. Disinflation, like inflation before it, has taken on a life of its own. And since inflation dominates bond returns, fixed-income investors able to ride out the market's inevitable swings could enjoy far better long-run returns than the post-World War II experience suggests.

Indeed, the world economy today

looks somewhat similar to the final 30 years of the 19th century. True, instead of an international gold standard, currencies now float, and computerized trading was unimaginable back then. But like today, the period from 1870 to 1900 was a time of surging international trade, vast global capital flows, and widespread immigration, says David D. Hale, chief economist at Kemper Securities Inc. World output soared, and dramatic strides were made in factory production and technological innovation. America's industrial

bond yields fell from 5.45% to 3.1

As for the financial markets in the era, stocks outperformed bonds, not by much. After adjusting for inflation, stocks returned 8.5% annually and bonds 6.57%, over the 30-year period, says Jeremy J. Siegel, finance professor at the Wharton School.

Capital-market theory and investment experience alike say that over the long run, stocks will outperform bonds. Stocks, after all, are riskier investments. If you have any doubts, recall the 1987 stock-market crash.



NEW YORK STOCK EXCHANGE A CENTURY AGO. STOCKS BEAT BONDS, BUT NOT BY MUCH

barons and their financiers put together steel and electrical-power combines, just as media tycoons

and their investment bankers are creating multimedia empires today.

Perhaps most striking, during the last three decades of that century, the unprecedented expansion in world trade and investment pushed down global commodity and manufacturing prices. And U.S. interest rates fell. For instance, during the last quarter of the 19th century, the rate that was paid to depositors at savings banks was cut from 6% to 3.5%, and railroad

stocks will beat bonds by thinner margins when inflation is constrained. Lenders are confident of earning decent real returns. "If inflation expectations continue to melt, even a two- or three-percentage-point difference between stock and bond returns may be too high," says Peter L. Bernstein, a New York economic consultant.

Of course, bond yields and inflation rates will spike up periodically. The swings may be costly for anyone who must sell bonds at that time. But for those with longer-term horizons, bonds could well prove to be a sterling investment in the 1990s.

Farrell covers economics for B

Monthly Report to Product Managers

Current analyses of the marketplace strongly suggest that electronic instruments will grab an ever increasing share of the market for musical instruments. To stay competitive in the next decade, Encore must pursue this growing business. Executive management is committed to making a sizable investment in research and development over the next five years to make this possible. To this end, Encore will form an electronic instruments division headed by Vice President Don Hall. The existing organization will be renamed the Acoustics division to be headed by Vice President Greg Forlot.

What are we getting for this?

While our entry into the electronic instrument business means the company will need to recruit outside personnel, executive management is interested in moving a core group of current product managers to

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Microsoft Excel					
File Edit Gallery Chart Format Macro Window Help					
REVENUE.XLS					
Encore Musical Instruments					
Monthly Revenue by Region (in thousands)					
1990	Q1	Q2	Q3	Q4	Totals
Acoustics Division					
Asia	31 850	24 620	27 215	39 715	123 400
Australia	25 075	16 225	20 155	30 845	92 300
Europe	40 575	36 520	33 450	50 155	160 700
North America	48 525	41 380	42 415	57 780	190 100
South America	24 600	22 355	19 760	31 685	98 400
Acoustics Total	170 625	141 100	142 995	210 195	664 900
Electronics Division					
Asia	31 675	27 155	31 625	36 245	126 700
Australia	23 475	21 870	19 030	29 525	93 900
Europe	40 250	35 465	37 320	47 965	161 000
North America	51 550	44 755	47 465	54 430	198 200
South America	23 125	19 255	22 630	34 090	99 300
Electronics Total	170 275	148 500	158 070	202 255	679 100
Total Revenue	340 900	289 600	301 065	412 435	1 344 000

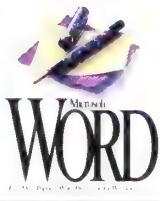
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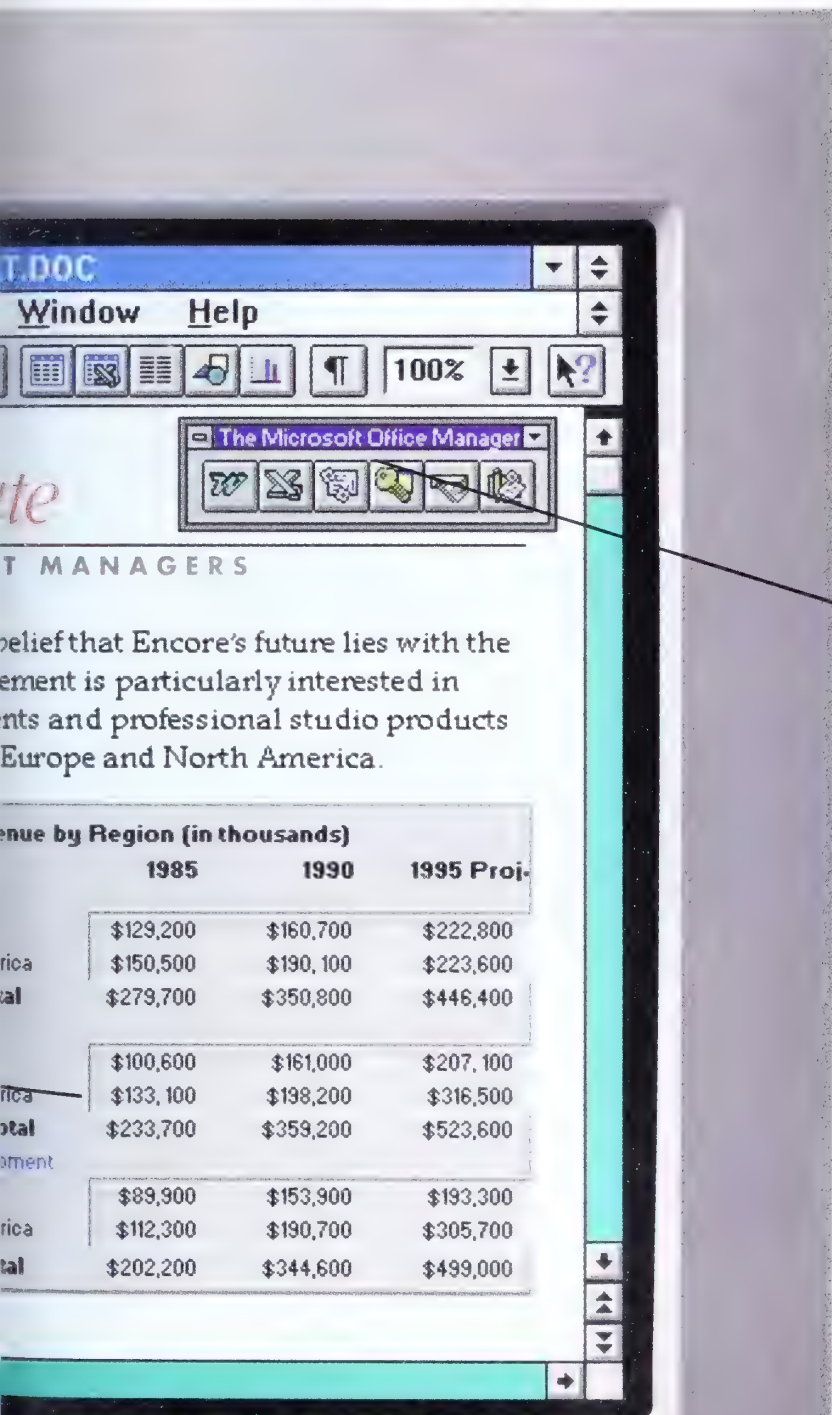
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SMALL TOWNS, BIG LOSSES

Did a Texas brokerage mislead Ohio officials about high-risk mortgage-backed securities?

To folks in Portage, a rural Ohio county east of Akron, Maurice H. "Mo" Kline is a pillar of the community. In his 32 years as county treasurer, Mo has come to know the area and its people pretty well. So, when the septuagenarian retired last August, he was feted with three celebrations—a perfect finale to a long and successful career. A highlight was a surprise dinner hosted by his friend and investment adviser, James W. Winter, a senior vice-president at Government Securities Corp. of Texas. Problem is, Mo wasn't in much of a mood to celebrate.

No one could blame him. A few months before retiring, Kline, 72, discovered that he had made the biggest mistake of his career: At Winter's suggestion, Kline had invested in highly speculative, interest-only, mortgage-backed securities, or ios, a market that has lost more than 50% of its value this year. In May, Kline took a \$1.7 million

loss on the \$4.2 million io investment. And when he left office on Aug. 31, Portage County was still stuck with a batch of ios that could boost the losses by an additional \$3.3 million. Together, the potential losses could add up to nearly 10% of Portage County's \$56 million investment portfolio. Kline says the fiscal blunder represents "a devastating period in my time [as treasurer]... I'm just a common, ordinary treasurer who had a misunderstanding, a misconception of what was offered."

"PEOPLE MAKE MISTAKES." Kline isn't alone. More than a dozen local governments in Ohio face losses from io investments. Holders of ios forgo principal payments from pools of mortgages but at one time could receive big interest payments. Thanks to yields over Treasuries of as much as four to five percentage points, ios gained popularity in recent years as investors reached for high returns in the face of falling inter-

GSC CHAIRMAN LAPORTE: "THEY'RE NOT A SCAPEGOAT. WE'RE THE SCAPEGOATS"

est rates. But as spread mortgage financing has slowed, 10 interest payments causing a big drop in prices. Although the Ohio losses, much as \$13 million so far—seem modest, they're having a impact on some small communities, which may be forced to take such steps as cutting police services.

The episode is a dramatic example of what can occur when unsophisticated investors buy complex securities peddled by relatively unknown brokerage houses operating on the fringe of the securities industry. Many of the ios were sold by Government Securities Corp. GSC and several of its current and former officers have a history of questionable activities and run-ins with regulators (table). Ohio securities regulators are investigating GSC and two other firms that have sold ios. "M-

firms that do business in riskier securities will gravitate toward smaller jurisdictions because of the naivety of their investment managers. For the investing is only a small part of the jobs. ios are such that if you don't take them full-time, you'll get stung," says Rod Rich, chairman of the investment policy committee of the Municipal Treasurers' Association of the U.S. & Canada. Portage and Sandusky Counties are asking GSC to recover their losses, and many local governments may do so.

LESS THAN A STELLAR PEDIGREE

1979 Government Securities Corp. was founded by Christopher L. LaPorte, John Lee Osborne, and Rick E. Pierson. Formerly worked at Hibbard, O'Connell & Weeks, a now-defunct securities firm.

Chairman Christopher L. LaPorte sees such actions: "They are un-
 pressure, and they need a scape-
 We are the scapegoats." He also
 plays the questionable backgrounds
 of GSC's principals: "People make
 mistakes, but that doesn't mean they're
 forever."

far, Ohio is the only state where
 spread public-fund IO losses have
 ed. But the damages could climb in
 and elsewhere as auditors conduct
 examinations of other counties,
 villages, and school districts that
 have done business with
 and other firms. GSC and se-
 es firms such as Houston-
 Hart Securities Inc. are
 ed to have peddled IOs in
 ucky and Florida, among
 states.

BATTLES. Officials at most
 e Ohio government en-
 -most of them in rural ar-
 where losses have been dis-
 ed claim they were duped
 buying the securities by ag-
 ve salesmen who failed to
 se the inherent risks of IOs.
 s totally misled. Based on
 thing I was told, I believed
 [IOs] were risk-free. I
 n't have invested in them
 wise," says Rosalie Town-
 -treasurer of the 2,700-stu-
 Vermilion (Ohio) school dis-

Townsend, who manages a \$2.5
 n investment portfolio, suffered a
 oss of \$127,000 on a \$198,000 IO
 purchased in October, 1991, from
 r Hart broker Kenneth J. Schulte,
 now works for Comprehensive Cap-
 -corp. in Boca Raton, Fla. Schulte
 ed to comment. Both Hart and GSC,
 a claim IO volume among nation-
 -customers at \$10 million and \$50
 n, respectively, insist they informed
 -mers of the potential perils of IOs.
 ll, GSC is seeking to settle a lawsuit
 last month by Sandusky County—
 e losses the state auditor says could
 high as \$2.5 million—and County
 -r Virgil Swartzlander charging
 nd Winter with federal and state
 ities fraud. It alleges that Winter
 Swartzlander IOs were government-
 ed or government-issued. GSC has
 -ued Sandusky County commission-
 -alleging that the county officials

who signed off on the purchases were
 experienced investors.

Although such difficulties are not new
 to GSC, Ohio's fiscal officers are appar-
 ently just learning the background of
 GSC and some of its former and present
 principals. Established primarily to trade
 small-business loans 14 years ago, GSC
 has blossomed into a diversified 130-em-
 ployee securities brokerage with gross
 profits of \$39 million in the last fiscal
 year. Company founders LaPorte, John
 Mark Lee Osborne, and Rick E. Pierson
 all hail from Hibbard, O'Connor &

charging excessive markups on trades
 and for registration violations. In 1989,
 Iowa also accused GSC of selling secur-
 ities without registering. The company
 finally registered in 1990.

GSC's current and former executives
 have also run into trouble, some of it fa-
 tal. Osborne, who ended a consulting
 relationship with GSC in 1988, was found
 murdered in his car in a Houston shop-
 ping mall in 1990. His death, which po-
 lice believe was a mob hit, came shortly
 after he had been arrested while try-
 ing to sell an undercover FBI agent \$17
 million in stolen securities.

While at now-defunct Beville,
 Bresler & Shulman Asset Man-
 agement in 1979, Winter was
 censured and fined \$1,000 by
 the National Association of Se-
 curities Dealers, which accused
 him of buying bonds for the
 Utah Central Credit Union with-
 out its consent and failing to
 state on a securities-industry
 application that he had been
 convicted on a hot-check charge
 several years earlier. In 1981,
 Winter was suspended by the
 SEC for 20 days after consent-
 ing, without admitting or deny-
 ing allegations against him, that
 he violated antifraud provisions
 in connection with alleged un-
 authorized transactions with a
 customer. GSC declined to make



TOWNSEND: "I BELIEVED THESE [IOs] WERE RISK-FREE"

Weeks Inc., a now-defunct Houston se-
 curities firm. Hibbard was the target of
 several regulatory actions. In 1976, for
 instance, the Securities & Exchange
 Commission imposed sanctions on the
 firm and two of its principals, then-Pres-
 ident Osborne and Chairman Aubrey D.
 O'Connor, for such fraud violations as
 concealing the true financial condition
 of a subsidiary. LaPorte and Pierson
 weren't implicated. Neither the firm nor
 its principals acknowledged wrongdoing.

MALL MURDER. GSC has had several
 brushes with securities laws. In 1985,
 the company was suspended by the Tex-
 as Securities Board for five days for
 selling securities without registering as
 a dealer. Public records don't show
 whether GSC admitted or denied liability.
 In other situations, GSC and its principals
 neither admitted nor denied wrongdo-
 ing. In 1986, the firm was fined \$65,000
 by the Tennessee Securities Div. for

Winter available for an interview.

No one challenges Winter's prowess
 as a salesman. In the early 1980s, he
 gained a foothold in Ohio while hawking
 Small Business Administration loan in-
 vestments to Kline, Swartzlander, and
 other county treasurers. Those invest-
 ments apparently performed well. The
 silver-haired, bespectacled Winter did
 such a good job that by the time Kline
 retired, Winter had a lock on most of
 Portage County's investment portfolio.
 While the county had some money in a
 state-run fund, Klein "basically used GSC
 when it had anything to do with invest-
 ment instruments," says Maureen Fred-
 erick, who took over as Portage County
 treasurer on Sept. 6. "That's not how
 we're doing it now," she said.

Winter made other valuable contacts
 in the state largely by schmoozing at
 county treasurers' association meetings.
 Tom Steenrod, Athens County treasurer
 and president of the County Treasurers
 of Ohio, says Winter is "a smooth talker,
 a good dresser—a slick son of a bitch."

He also drummed up business by per-
 suading some treasurers to write or sign
 letters of recommendation to solicit other
 business. One letter signed by
 Swartzlander erroneously said the mort-
 gage-backed securities investments he
 had made through GSC were "backed by
 the full faith and credit of the United

the Securities & Exchange
 charged the firm and certain
 including Osborne, with
 of antifraud statutes and imposed
 on them.

suspended by Texas Securities Board
 for selling securities while fail-
 -ing to register as a dealer.

1986 Fined \$65,000 by Tennessee Secur-
 ities Div. for charging excessive markups on
 trades and for registration violations.

1989 Accused by Iowa of failing to
 register. Subsequently complied.

1993 Under investigation by Ohio secur-
 ities regulators. Suits fly between two Ohio
 counties and GSC.

Service and Technology



France, Italy, United Kingdom, Australia, Brazil, Canada, Denmark, Finland, Germany, Hong Kong, India, Japan, Korea, Malaysia, Malta, Morocco, The Netherlands, Singapore, Spain, Sweden, Switzerland, Taiwan, Thailand and the USA.

States government." GSC Executive Vice-President Frank J. Klaus says Swartzlander wrote the letter without GSC's knowledge and that the error was brought to Swartzlander's attention. But he says GSC didn't ask for the information to be corrected or for Swartzlander to stop sending out the letter. "By then, we assumed he had already mailed them out," says Klaus. Swartzlander denies he had sent out the letter on his own in the first place and declined to comment further for this story. But officials at two other counties say they got the letter in a packet from GSC.

Winter and GSC may also have lulled Swartzlander and other treasurers with such niceties as all-expense-paid junkets to Houston to visit Government Securities' sleek headquarters and attend pro football games in the firm's luxury sky box at the Astrodome, as reported in the *Cleveland Plain Dealer*. "We encourage clients and prospective clients to come down and see our operation," LaPorte says. "Sometimes, it's not in their budget, so we have no problem paying.... They should know who they're doing business with."

GET SMART. GSC has its defenders. Unlike the fiscal officers in Ohio who are crying foul, a bank finance officer in Somerset, Ky., refuses to blame GSC for the 50% decline in value of a \$500,000 IO he purchased from the company in December, 1991. The officer says that about a year ago, GSC recommended he sell the bond or be prepared to hold on to it for quite a while until interest rates rebounded. "But I decided to keep it. I can't

Some financial officers say state regulators should have spotted the trouble

blame GSC" for its losses now, he says.

As some financial officers in Ohio see it, GSC and the other firms shouldn't bear all the blame. They contend that state auditors should have had some inkling of the types of investments the local governments were holding. "We feel that's a cop-out," responds a spokesman for the state auditor, who notes that responsibility for investments lies with the local governments. Further, it's not clear, at least in Ohio counties, whether investing in IOs is legal. One thing, though, is clear: As investing grows more sophisticated, so must those who play the game.

By Stephanie Anderson Forest in Dallas and Zachary Schiller in Cleveland, with Phillip L. Zweig in New York

BANKING

TALK ABOUT DOING WELL BY DOING GOOD

American Savings' mortgages in the inner city are a gold mine



ANTOCI IN EAST L.A.: HE'LL EVEN ACCEPT UTILITY RECEIPTS AS PROOF OF CREDIT HISTORY

In the spring of 1989, just months after he took over as chairman and chief executive officer of American Savings Bank, Mario J. Antoci took some heat from noisy picketers outside the Irvine (Calif.) thrift's Oakland branch. The protesters, led by low-income-housing advocate Robert Gnaizda, were charging American with redlining—making too few loans in low-income and minority communities.

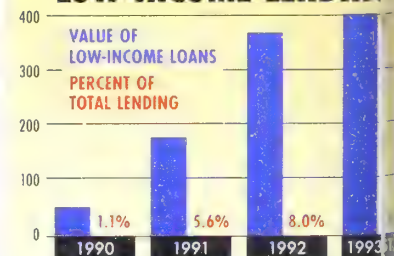
Antoci refused to meet with Gnaizda. But he did boost his company's low-income lending. Now, Gnaizda himself hails American Savings' lending record, praising its policies in November presentations to Federal Reserve Chairman Alan Greenspan and Comptroller of the Currency Eugene A. Ludwig.

REACHING OUT. Antoci's policy is less a matter of altruism than the bottom line, for inner-city lending has turned out to be surprisingly lucrative. American's loans in low-income neighborhoods, which in 1992 accounted for nearly 20% of its mortgage originations, are among the best-performing it is making these days. Because American can keep smaller loan-loss reserves against loans with low delinquency rates, low-income loans are quite profitable—even though American's low-income borrowers don't get charged premium rates. Profits on these

loans have softened the blow to American's earnings from losses in ritzier communities such as Santa Monica and Woodland Hills, where borrowers' property values have plummeted. In Los Angeles, delinquencies on loans in low-income neighborhoods are less than 3% those on loans in affluent areas. "It's a great niche," Antoci says.

Antoci wants to do more. He is opening a branch in Watts, a mostly black section, as part of the first office development there since the 1965 riots. Now he is looking for ways to increase business among California's Asians by setting up branches in places such as San Francisco's Chinatown and offering at

BETTING BIG ON LOW-INCOME LENDING



▲ MILLIONS OF DOLLARS
DATA: AMERICAN SAVINGS, SMITH BANKING CONSULTANTS INC., BUSINESS: EN

on home buying taught in Chinese. American's mission in the inner city is cry from the one that Antoci, who worked as a certified public accountant, inherited at the end of 1988, he was hired away from H.F. Ahn & Co., the nation's largest thrift. At the time, American Savings was emerging from a protracted restructuring—its healthy loans had been bundled into a "good bank" and sold to a group of Texas billionaire Robert M. Bass. American was not a familiar name in inner-city neighborhoods. But Antoci, a veteran of a thrift with a strong low-income lending record, knew this business could be profitable and set about wooing low-income borrowers (chart). He put together a community-outreach department that has sponsored everything from neighborhood "paintathons" to a talent show at a child-care center. In 1991, American opened two branches in East Los Angeles and South Central Los Angeles. Under the old management, American had covered South Central from a loan office seven miles away in Hollywood.

POSITIVE CREDIT. To staff the new branches, Antoci lured loan agents from competitors as Ahmanson and Western Financial Corp. Those agents—many of whom live in the communities they serve—are given the freedom to bend the rules a bit when making loans. Some borrowers are permitted to have a relatively large portion of their income go toward housing. Often, the agent will accept utility receipts in place of a credit-card record as proof of a borrower's credit history. "A typical credit report might have a problem with that," says Antoci. "But we are proving it doesn't have to be that way."

American's customers have proved themselves reliable. With their houses often their only asset, inner-city borrowers fight harder to keep their property. Tom Ramirez, who works in American's East L.A. office and has become the thrift's top loan producer. Sometimes, a borrower will meet mortgage payments by renting out rooms to a friend or relative.

American isn't the only lender catering to the inner city, and future gains will be harder to come by. Competition is already spirited—from banks under pressure to do more low-income lending. Even mortgage bankers are interested. Thrift consultant Bert Ely says competition from outsiders will almost surely erode margins. But Antoci says he isn't concerned: "I'll start to worry when, instead of closing branches in the inner city, the banks start opening them." Until then, he will keep mining the banking's most unlikely niches.

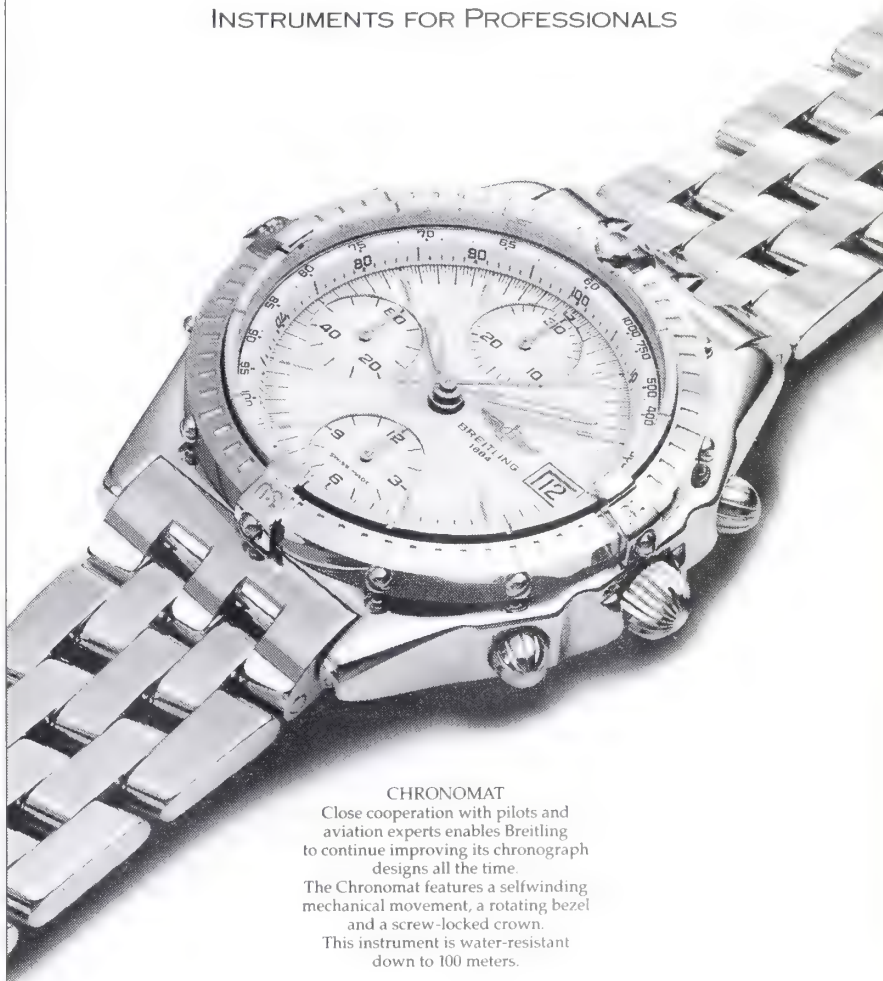
By Amy Barrett in Irvine, Calif.



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BY GENE G. MARCIAL

THIS BULL IS BUYING AMERICAN

While many of the large U.S. investors have been flocking to markets overseas, Wayne Nordberg, partner in charge of equity investing at Lord, Abnett & Co. in New York, is definitely buying American. He's convinced that U.S. stocks are still attractive and the risks manageable.

By historical standards, the market looks expensive, concedes Nordberg, with the Dow Jones industrial average hitting a high of 3710 on Nov. 16 before easing to 3670 on Nov. 22. But in relation to fundamentals such as inflation, interest rates, and corporate earnings, "the market is still quite undervalued," and certain stocks are likely to produce huge returns.

Nordberg has beefed up the portfolio of Lord Abnett, which has \$17 billion under management, with large-cap cyclical stocks he thinks stand to benefit the most from even modest economic growth. The U.S. has become the world's low-cost quality producer of a variety of goods, asserts Nordberg. "So our industries should continue gaining market share worldwide."

Four Nordberg top picks include Boeing, Deere, Ford Motor, and Georgia-Pacific.

Boeing, trading at 38, is an example of a U.S. company that's competing well with its foreign rivals. It recently won a fat contract for six 777 jet aircraft from Gulf Air, the flag carrier of Abu Dhabi, Bahrain, Oman, and Qatar—beating Airbus Industrie's A340 aircraft for the business that could generate additional orders.

BANNER YEARS. At Ford, cost-cutting in Europe, plus strong demand in North America, are enhancing its bottom line. Lord Abnett analyst Paul Blaney sees earnings jumping to \$6 a share next year from 1993's estimated \$3.70 and 1992's loss of \$1.46. Selling at 59, Nordberg thinks Ford is an exceptional buy.

Deere, the world's largest farm-equipment maker, which has fallen from a high of 78 in early November to 68, has benefited from the strong yen, thus staving off price competition from the Japanese and the rise in tractor demand. Lord Abnett analyst Tom Bogan sees earnings zooming to \$6 next year from 1993's estimated \$3.55.



LORD ABETT'S NORDBERG: "THE MARKET IS STILL QUITE UNDERVALUED"

Georgia-Pacific, a big winner this year, is Nordberg's bet in the highly cyclical paper industry. The stock, now at 72, still has strong upside potential over the long haul, says Nordberg. Its strong cash flow and position in both the wood and paper markets should add to the earnings upswing. Lord Abnett analyst Tom Abrams figures Georgia Pacific will earn \$5.40 in 1995, up from \$2.80 in 1993 and 90¢ in 1993.

IS MERRILL LYNCH'S MISERY INDEX UP?

Since hitting an impressive record high of 102% in mid-October, Merrill Lynch has been on the decline, closing at 86% on Nov. 22. Just a logical correction for this highflier? "I think not," says Mike Murphy, editor of the *Overpriced Stock Service*. He believes it's the start of Merrill's fall.

"We have flashed a short signal for Merrill Lynch because we expect the stock to fall to 46 over the next 12 months," says Murphy. He insists that Merrill's earnings will fall to \$4 to \$5 a share next year from this year's estimated \$11.85.

Murphy's view isn't shared by most analysts, who see Merrill earning around \$10 in 1994. One factor behind Murphy's projection, however, is that he thinks a bear market has just begun. "Merrill usually falls steeply in advance of the market's big fall," he says. "But bear market or not, Merrill faces an earnings slump in 1994."

One analyst who's also bearish is Nancy Zambell of J.W. Charles Securities in Boca Raton, Fla. She warns: "Merrill's earnings will decline next

year and then begin a period of slow growth."

Zambell expects trading volume of Big Board stocks to drop 5% to next year and investment banking activity to fall 25%. She also sees a competitive pressure on fee income and a moderate rise in interest rates. Meanwhile, she says that Merrill's fixed costs have escalated dramatically this year after decreasing in the two years. A Merrill spokesman declined comment.

If such a downturn in the capital markets does occur, then Merrill, for an earnings slump for the next 24 months, predicts Zambell.

CLEAN SWEEP FOR A FLOOR COVERING

Nobody paid much attention when American Biltrite sold its Amtico division in February. Congoleum, a privately held producer of vinyl-sheet flooring material. The company who did—and bought shares of Biltrite—made a bundle. At the time of the deal, Biltrite, which is listed on the American Stock Exchange, was at 41. It's now at 41 and rising.

What's the scoop? And why was Biltrite a big winner for all? The Amtico unit, which makes floor tiles, including the do-it-yourself variety, boosted Congoleum's floor-covering business. Biltrite is benefiting, too, because the Amtico-Congoleum deal gave it a 40% stake in Congoleum. So when Congoleum posts profits, so does Biltrite.

One investor notes that Biltrite's third-quarter results gave a clue to the magnitude of its earnings potential from Congoleum. Of Biltrite's \$1.13 share earnings in the September quarter, 96¢ came from its Congoleum interest. The other 30¢ came from Biltrite's other business—industrial tile.

For all of fiscal 1994, the Congoleum stake should chip in \$5 a share, figures one analyst. As a result, he says Biltrite will earn \$6.50 a share in 1994 vs. 1993's estimated \$3.25, which included two quarters with the Congoleum interest.

One fund manager who has been buying into Biltrite figures the stock could more than double should Biltrite sell its 40% stake—possibly back to Congoleum. One reason Congoleum might want it back: Congoleum wants to go public. The fund manager thinks the fact that the company is now trying to refinance debt seems like a step in that direction.

MULTIMEDIA: JOYFUL AND TRIUMPHANT?

Prices are low. The software is hot. PCs could soar this season

There's going to be a lot of sound and fury under the Christmas tree this year, and it won't all be coming from the children. Personal-computer makers are gearing up for their best Christmas ever, and they're riding on explosive interest in multimedia to bring shoppers into the stores. Ask your local computer or home-electronics store, and you're likely to see that put on a dazzling show of sound, graphics, and video—with products that entertain and educate both children and adults.

"This is a multimedia Christmas," says C. Thygesen, general manager of multimedia publishing for Media Vision, which makes both multimedia hardware and software. "The computerization of the PC is really heating this year."

You've heard all this

before, right?

Ever since IBM, Commodore International, and Apple Computer started pushing their machines as the perfect family Christmas gift a decade or so ago, some computer maven somewhere has been proclaiming that "this is the year of the home computer." And for nearly 10 years, savants have been predicting the arrival of the multimedia era. Yet only 1% of American households have a PC, and only 2% of those could be classified as multimedia, according to market-consultant Interactive Strategic Research International. This year, however, the right mix of prices is turning

multimedia into a true mass-market category: low prices, interesting software, and a critical mass of consumers who feel comfortable with the technology. Market researcher Link Resources Inc. estimates that 718,000 multimedia PCs for the home will be sold this year, compared with 279,000 in 1992 (table, page 169). Consumers who already own a plain-vanilla PC will buy 550,000 multimedia upgrade kits, compared with 132,000 last year.

And Christmas will just be the start. "Multimedia PCs will become commonplace over the next 18 months," says William H. Gates III, chairman of Microsoft Corp. "Clearly, people will look

back on 1994 as the year that happened. By 1995, people will say, 'Of course my PC has a CD. Yours doesn't?'"

Hardware makers say multimedia sales are zooming because there is finally enough software available, and software publishers say it's because the hardware is finally affordable. It's both, of course. Certainly, price is a key driver. A year ago, a true multimedia PC—equipped with a CD-ROM player, a super video-graphics-array (SVGA) color monitor, a sound card, speakers and a microphone, and a 486 microprocessor at the heart of it all—cost about \$2,500. This

year, it's more like \$1,500 to \$1,800, retailers say. The difference between a plain PC and one with a CD-ROM player, a basic necessity for multimedia, is only about \$150 this year, compared with \$500 last Christmas.

NONTHREATENING. The real breakthroughs, however, are coming in the realm of software. There are now multimedia packages for just about every taste and family member, some 2,500 CD-ROM titles in all. Analysts expect the number of titles to double over the next 12 months. Already, about 14% of all software packages shipped are on a CD-ROM, most costing \$50 or less, and CD-ROM is the fastest-growing software category. The huge popularity of music CDs has paved the way, says Kevin O'Leary, president of SoftKey Software Products Inc., one of the largest publishers of mass-market programs. "Everyone knows how to use a CD, so they're not scared by a CD-ROM. You don't have to sell the technology."

It also helps that children who have been playing Nintendo and Sega since they were four think nothing of moving up to a PC. There are even those—software makers, mostly—who contend that the lively animation and sound of multimedia has kids spending more of their time doing homework. That's helping to drive the rapid growth in a new category of "edutainment" software. These



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are programs that look like games but actually teach something, in a way that feels like fun.

Typical of the genre is Yearn 2 Learn: Peanuts, one of the hot titles for preschool set. The program, sold by Image Smith Inc., features Snoopy, Charlie Brown, and the gang from the Peanuts cartoon strip. Aimed at ages 3 to 5, Peanuts characters use animation, music, and video to teach math, geography, and reading. For older children there's Interactive Encyclopedia, from Compton's New Media, one of the best-selling CD-ROM packages.

All this edutainment makes multimedia a lot more appealing to parents than the weird-sounding and sometimes violent games that have kept their kids glued to their Nintendos. A parent is more likely to plunk down \$1,800 for a PC that can run Knowledge Adventure's 3D dinosaur CD-ROM than Luca Asca's Day of the Tentacle: Maniac Mansion. "Parental guilt is a key driver in



YEARN 2 LEARN SOFTWARE BY IMAGE SMITH

market," says Robert W. Bauer, director of desktop marketing for Compaq Computer Corp. "Most schools have PCs, so parents buy them because they think it's what their kids need."

ESSENTIAL SOFTWARE. Edutainment is also symbolic of a unique phenomenon: multimedia. This is the first significant computing technology to be widely adopted by consumers rather than business customers. CD-ROMs are barely available in offices because they are expensive; they can't record data, and the information on them can't be updated. At least at this stage, it's going to take a 'killer app' to get multimedia into the office," says Tim Bajarin, president of Creative Strategies—something Lotus Development Corp.'s 1-2-3, which has persuaded many businesses to invest in PCs a decade ago.

For the home market though, a real killer application is needed. Different family members will use multimedia for different reasons: parents for work and personal finance, teenagers for games, kids for schoolwork, even grandparents for interactive books.

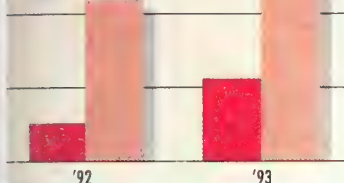
SANTA'S COMING WITH A PC...

PCs SHIPPED TO THE HOME

ILLIONS

AND MAYBE WITH MULTIMEDIA, TOO

UPGRADE KITS SOLD MULTIMEDIA PCs



NOTE: "UPGRADE KITS" INCLUDE SOUND CARD AND CD-ROM DRIVE UNITS. NOT NECESSARILY AN "ALL-IN-ONE" UPGRADE KIT. DATA: LINK RESOURCES CORP.

Is that keep them in touch with cyberspace world.

makers still learning to sell to consumers admit that they have caught unprepared by the multimedia rounds well. IBM started shipping media PS/1s for the home market weeks ago and is already unable to orders. "Our expectations were very low, but we're finding that there is a demand," says Robert J. Corri-president of the IBM Personal Computer Co. Compaq, AST Research Inc., Apple Computer Inc. also say sales may be above expectations. About 20% of PCs are selling to home buyers, for example, despite the company's almost complete lack of brand awareness among consumers, and about a third of PCs are multimedia. It doesn't hurt, several PC makers, that Compaq is spending a lot of money this fall on consumer-targeted TV ads. "That kind of advertising spikes the market for all of us," says Ed Tazzia, IBM PC's consumer marketing manager.

Another spike could come from new developments in hardware. One key development will be widespread adoption of digital signal processors, or DSPs—chips that can handle audio, voice-recognition, video. High cost and lack of special features are for the chips had kept the technology out of most PCs. But Compaq, Intel, and Bell, Hewlett-Packard, and IBM are starting to adopt the chips. Says Tazzia: "Multimedia is just beginning to really take off. Between now and Christmas, I think you'll see an explosion." So if you want a silent night in December, 1994, buy earplugs.

Catherine Armst, with Paul M. Eng and Richard Brandt, in Las Vegas

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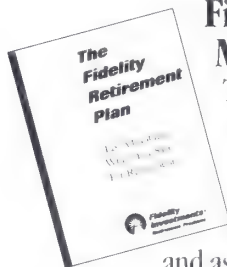
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GOING ON-LINE WHEN YOU'RE OFF THE BEATEN PATH

A flood of wireless gizmos will zap information anywhere

For months, computer makers, phone companies, and the media have been bombarding the public with the idea of "anytime/anywhere" communications and information. Apple Computer Inc. says that its Newton personal digital assistant (PDA) will offer such capabilities, while American Telephone & Telegraph Co., in its "You Will" ad campaign, depicts a future of untethered communication and computing.

But so far, these are just promises. Although sales of portable computers are booming, most of these devices are far from being really portable when it comes time to send a file or a fax, check electronic mail, or read on-line news services. You have to find a phone jack and plug the thing in. The same goes for most of the PDAs. Why? No wireless modem was small enough for the handheld machines, and when PC makers tried rigging tiny cellular communicators into laptops, they ran into electrical-interference problems.

UNTETHERED. That should change soon. If computer makers deliver on what they promised at the recent Comdex trade show in Las Vegas, they will be completing those wireless connections in the coming months. There will be new gear that plugs into special slots now appearing in portable PCs and PDAs. These slots conform to the Personal Computer Memory Card International Assn. (PCMCIA) format and accept credit-card-size devices such as modems. Wireless PCMCIA cards should dramatically boost the appeal of untethered computing. Partly as a result, the number of wireless-data users will grow from 1 million this year to 7.3 million in 1998, says market researcher Yankee Group Inc.

Some of these new cards allow notebook PCs to link up to cellular-phone networks via an ordinary cellular phone. These cards are attached by a small cable to a cradle device that holds the phone. Other cards will link users to one of two nationwide wireless data ser-



A WIRELESS-MESSAGE CARD FOR THE NEWTON

vices: Ardis, owned by IBM and Motorola Inc., and Ram, a venture of BellSouth Corp. and Ram Broadcasting Corp. The first Ardis and Ram cards need to be attached to radio transceivers about the size of a cellular phone. But next year, companies such as Motorola and L. M. Ericsson Telephone Co. plan to sell the entire radio on a card.

Another new wireless data system getting a lot of attention is cellular digital packet data (CDPD). The system works by sending split-second bursts of data during normal pauses in conversa-

tions on cellular networks. Cellular operators are just starting to bring CDPD on-line, and it requires its own special attachments for a portable PC: a PCMCIA card hooked to a small radio device. But by next year, the CDPD equipment will fit onto a card, says Bob Growney, general manager of Motorola's Paging & Wireless Data Group. And owners of IBM's ThinkPad 750 notebook will soon be able to buy a \$1,495 CDPD transceiver from Cirrus Logic Inc., which goes in place of the floppy drive.

PDAs, too, are finally going

wireless as well—something only a bulky EO can do now. A new M-PCMCIA card provides receive-only wireless communications for the Newton MessagePad and the Zoomer PDA by both Casio Corp. and Tandy Corp. These cards, priced at \$230-\$250, receive short text messages as well as news briefs, stock quotes, and other information.

WONDER YEAR. Ultimately, the future will require hardware that incorporates such communication capabilities. For now, that leaves out notebook PCs. The forthcoming M-PCMCIA cards that house the entire radio will work with many notebook computers, but the computers' electronics interfere with radio signals. These PCs can use the cards that connect to a separate radio transceiver or cellular phone. A truly integrated wireless device may have to start over.

SIMON: NO SIMPLE CELLULAR PHONE, IT'S A NOTEPAD, ADDRESS BOOK, AND FAX, TOO

And next year may be the right time: PC makers and electronics companies plan lots of wireless wonders. Sony Corp., developed by IBM and BellSouth, offers PDA functions such as a to-do list, address book, and cellular fax. The \$899 device can send and receive faxes on its screen. Apple and IBM plan new Newtons and Palm while Motorola will launch three different wireless PDA lines. Sony Corp. Matsushita Electric Industrial Co. should release one, too. And new notebook computers will be wireless-free.

"This is not a question of if this is going to evolve—it's a question of when," says Motorola's Growney. He predicts that by 1994, the number of wireless data users will come to 7.3 million.

By Ziegler
Las Vegas



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PAY TV GOES SOUTH

THE HOT MARKETS HAVE A LATIN ACCENT

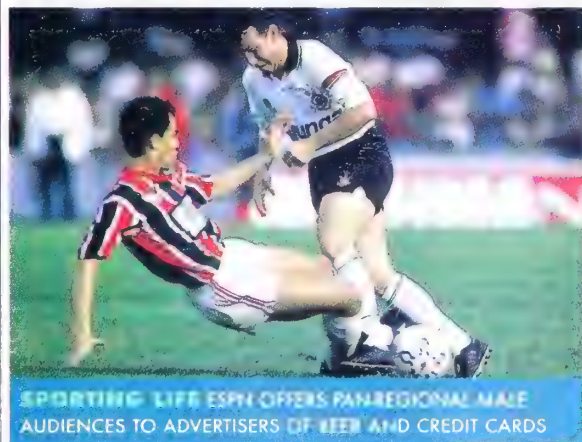
David Kahn marvels at the attention he and others from Latin America got during a recent cable-TV conference in Miami. His family owns a 60,000-subscriber system in five Mexican cities, including Acapulco and Cuernavaca. "It's kind of startling," he says. "We used to come to conventions, and no one wanted to talk to us. Now, everybody asks us to dance."

Not just dance, but salsa, samba, and tango. From Mexico City to Buenos Aires, households with pay TV are suddenly inundated with new programs from the U.S. and South America. If it's not NBC Noticias, the U.S. network's 24-hour Spanish-language news show, then it's Fox Latin America Channel, beaming its hit show *Cops* dubbed in Spanish and Portuguese. MTV launched MTV-Latino on Oct. 1, aiming for the region's teen audience. And soon, Mexico City viewers will be able to order clothes and jewelry from a Spanish-language version of home-shopping channel QVC. These are among a dozen new cable programs announced this year alone (table). In cable and broadcast television, says Tara Devlin, an associate at analysts Kagan World Media, "Latin America is an emerging giant."

What's drawing newcomers is a dynamic market combined with new opportunities spurred by deregulation and technology. As Latin Americans emerge from decades of state controls, they are opening their economies to competition and foreign investment. The airwaves are no exception. Digital technology makes it easier to deliver programming—and advertising. And slow growth in the mature U.S. market has programmers scouring the world for new viewers.

More than 60% of U.S. households

and 28% of Western Europe's are already watching some form of pay television. Latin America, by contrast, has only 7.5% penetration. What's more, the region has strong affinities with the U.S. "In Latin America, there's a demand for" televised foreign culture, says Rob Hersov, media group director at Compagnie Financière



Richemont. Richemont, stalking investments worldwide, plunked down \$95 million in September for a 33% stake in TVA Brasil, the country's pay-TV leader.

Now, as the region's TV industry

scrambles to plug into swift changes, its thirst for capital is growing. And if such alliances are a merger between Bell Atlantic Corp.



cable giant Telecommunications Inc. will off a surge of new information-highway investments, TV south of the border will have to follow. Argentine regulators, for example, are already debating whether to allow up to 40% foreign ownership in pay-TV—a business closed to outsiders up to now.

One hub of the pay-TV boom is in Miami, where shows are dreamed up and MTV-Latino produces

programs there because of Miami's universal appeal to Latin America and the city's pool of bilingual and technical talent. Miami's allure helps sell *Guape*—a steamy telenovela, or soap opera, made there by Cablevision International Corp.—to 20 countries. **TAILOR-MADE.** True, pay TV in all forms—cable, microwave, and direct-broadcast satellite—accounts for only a fraction of Latin America's 76 million TV households (chart). But programmers are quick to point out to prospective advertisers that pay TV reaches the most affluent households in a region of great economic disparity. The real reason, many believe, lies in advertising that cuts across borders—a one-stop shop for companies that target Latin consumers. That's a juicy prospect for multinational advertisers. Coca-Cola Co., for example, is a pan-regional advertiser on MTV-Latino, ESPN, and TNT-Latin America.

What's more, programmers will eventually offer advertisers a two-for-one deal: Buy a spot on Latin America and we'll offer a shot at the U.S. Hispanic market, as well—Miami or

AS LATIN AMERICA TUNES IN TO PAY TV.

ARGENTINA		MEXICO
Total TV households	MILLIONS..... 8.2	12.0
Pay TV as % of TV households.....	38.0%	12.0%
Growth in pay TV 1993 EST.	33.0%	20.0%
VENEZUELA		BRAZIL
3.3	31.6	3.4
25.0%	0.6%	1.7%
5.0%	33.0%	10.0%

say. MTV is already selling time on continents, aiming each by yearend 750,000 U.S. Hispanic households via Latino.

the broadcast, one of the two largest U.S. Spanish-language networks, Mundo Group Inc., year began beam-elenovelas such as *Destinos* and other amming to 17 Latin American markets. re sponsors, Teleo lets advertisers nize for local mar-

It holds open a two-minute slot big buys, which it sells to multinational advertisers to air either the same commercial in the entire region or drop ferent local spots. Eastman Kodak is an early advertiser on Telemun-Latin American network, mostly local commercials. The savings can considerable—up to 40% less than g individual markets.

ving the way for such deals are tization and deregulation, which spawned more broadcast outlets.

for example, now has six stations, om four in 1990. Meanwhile, Mexi-giant Televisa, which has 90% of country's TV audience, is also exng abroad in broadcast. Linking ets, says Larry Dam, president of subsidiary Univisa Inc., is part of isa's grand plan. A major move ts December, 1992, purchase of Spanish-language network Univirrom Hallmark Cards Inc. Partners e deal included Los Angeles inves-Jerrold Perenchio and Venevisión, of the powerful Cisneros family gs in Venezuela.

he lure of cable is so strong, howev-at even broadcast giants such as isa and Brazil's TV Globo are plung- . Televisa, headed by tycoon Emi-zeárraga, currently owns 50% of



PanAmSat, and in May it teamed up with TCI in a joint venture to pursue opportunities throughout Latin America. The venture owns Mexico City's biggest cable system, with 193,000 subscribers, and is backing the entry of American programmers such as Discovery.

RISKY BUSINESS. Latin America's pay-television phenomenon is drawing in a number of big international investors. Kagan estimates that approximately \$375 million, including Richemont's deal, has been poured into Latin American cable and satellite companies in the past six months. Programmers are also spending heavily—anywhere from between \$5 million to \$17 million, industry insiders figure—to launch and operate Latin

basic cable systems that can't offer segmented programming—basic and premium channels paid for separately.

Finding enough customers for pay TV could also prove more difficult than some of the operators admit. After all, since there are relatively few pay-TV users in these markets, U.S. programming can be expensive—as much as \$1 to \$1.50 per subscriber. And if Latinos decide not to pay for Hollywood oldies such as *Cat on a Hot Tin Roof*, sinking big bucks into new infrastructure could be high-stakes gambling. Upping the ante still higher are the new wild cards of potential telephone links and interactive systems.

Already, advertisers are fretting that the market is a little wild and woolly, with few reliable ratings or data on viewers. Some pay-TV systems, such as Brazil's TVA, hire independent auditors to verify customer counts.

Even programming has its mine fields. Although some channels are creating new programs, others are simply sifting through libraries. TNT-Latin

America, beyond relying on its hoard of MGM movie classics, is exploring acquiring rights to original Spanish-language programs. But in both broadcast and cable, programs from Argentina, Mexico, Spain, and Venezuela are competing for viewers' time. NBC Noticias went up against a particularly crowded market: In Argentina alone, there are five news channels.

"ADD THE SALSA." To bridge the cultural gap, Fox has given a Latin look to the graphics for the existing programming it offers on its Latin American Channel. "Some channels have taken what they have and exported it without special packaging, promotion, or talent," says Concepción Lara,

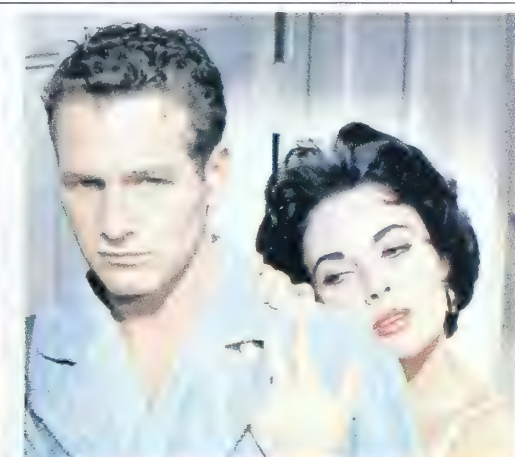
vice-president at Fox Latin America Channel. "But you have to add the salsa to it."

Mixing the recipe may not be easy. Nely Galán, a partner in Tropix, which helped create and position the Fox channel, foresees a widening gap between U.S. Hispanics and Latin Americans. Part of the U.S. Spanish-language market—along with its future—is "second-generation, primarily English-speaking Latinos," she says. "Are you able to reach a kid who can barely speak Spanish and an Argentine 17-year-old? I don't think so."

For U.S. TV companies with worldwide ambitions, those are important challenges. In the emerging mosaic of markets, pleasing Latin tastes has to be part of their global plan.

By Gail DeGeorge in Miami, with bureau reports

lion, including Richemont's deal, has been poured into Latin American cable and satellite companies in the past six months. Programmers are also spending heavily—anywhere from between \$5 million to \$17 million, industry insiders figure—to launch and operate Latin



BRICK AND MAGGIE WILL OLD MOVIES SUCH AS CAT ON A HOT TIN ROOF APPEAL TO LATINOS?

American ventures for the first year.

So what's the downside in all this? Plenty. For one thing, there are technical obstacles strewn across the region. More than 90% of operators have built

PLAYERS MOVE INTO THE LATIN MARKET

launched or announced joining ESPN, Turner sting, and Telemundo, airing in Latin America

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CHANNEL
MIAMI
Nature, science
programs

TELE UNO
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AN OPEN INVITATION TO CLOSED-END FUNDS

As investors comb the globe for ways to tap into emerging markets, they repeatedly hear names such as Mexico Fund, Thai Fund, or Korean Investment Fund. These are not ordinary mutual funds. They're closed-end funds, which share many similarities with the more familiar variety but also have unique properties.

Closed-end funds have a fixed number of shares that trade on stock exchanges. Because the capital stays constant, closed-end funds are ideal vehicles for the thinly traded and illiquid—but increasingly popular—emerging markets. If these funds were set up as open-ends, and if a foreign market took a dive, managers would have a hard time redeeming the shares of fleeing investors.

"YOU GET HOOKED." Once people understand closed-end funds, they tend to become enamored of them. "These are arguably the best investment vehicles on the planet," says George Foot, partner at Newgate Management Associates in New York, which manages portfolios using closed-end funds. Once you catch on, "you get hooked," says Thomas Herzfeld, the author of several books on closed-end-fund investing and president of Thomas J. Herzfeld & Co., an investment advisory firm in Miami. But like a lot of investments these days, these funds have been picked over. While you can still root around for good deals, there are things to watch out for.

Wall Street is heavily promoting a flood of new funds. There were 101 introduced last year and 92 this year through mid-November. But the worst time to invest in a closed-end is during the initial

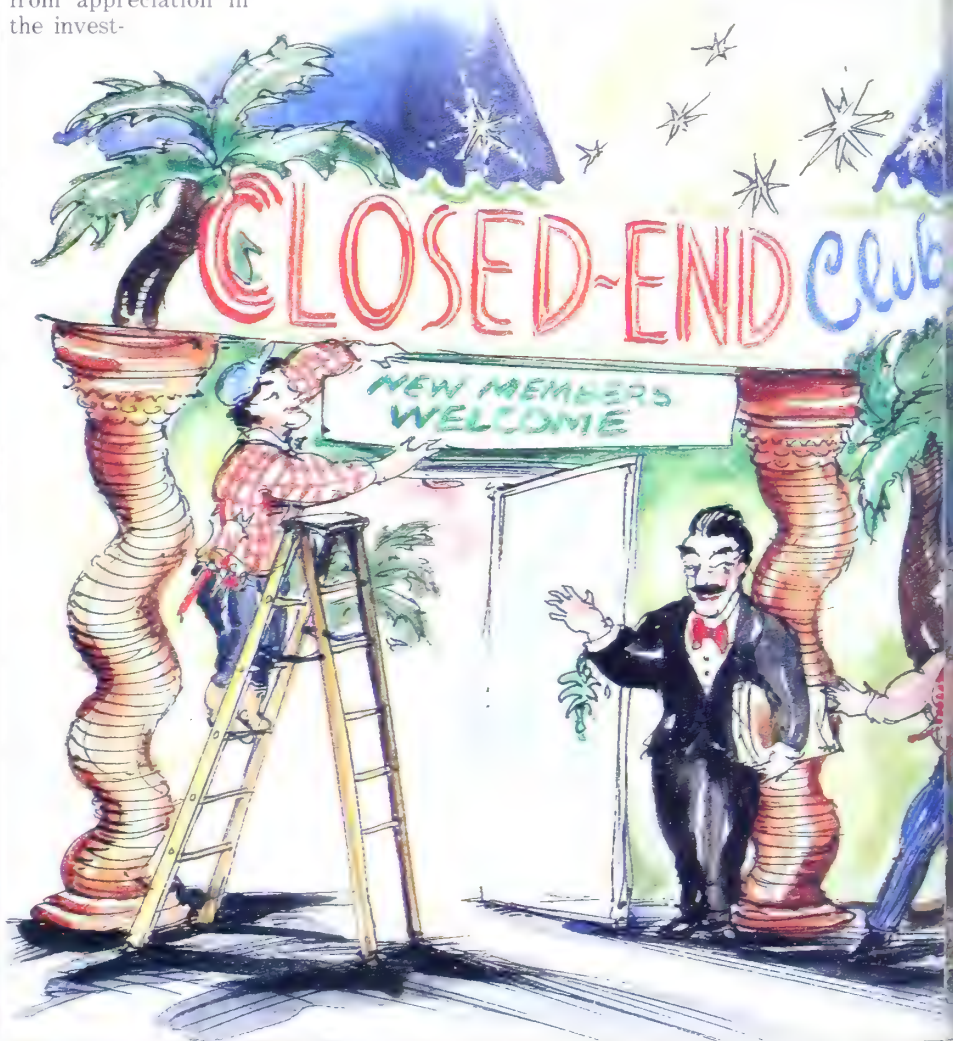
public offering (IPO). Many existing funds are also raising money through "rights offerings," or invitations to existing owners to buy new shares. But critics consider this practice abusive to shareholders because it dilutes the value of their holdings.

Closed-end funds can usually be bought at a discount to the value of the underlying securities. This heightens their appeal, since investors can make money from a rise in the share price as well as from appreciation in the invest-

ments. Of course, prices can tumble rapidly because many closed-end funds are small, with less than \$100 million in capital. "They can be blown around the pond like a paper sailboat by any kind of breeze," says Foot. You can even lose money on a fund that is appreciating, says Foot. For example, the Japan OTC Equity Fund traded at a 41% premium in July, 1992. Since then, the fund's assets have grown 35%, but the share price—the figure that

really matters to investors—has fallen 10%.

Many closed-end funds are now trading at a lower than usual discount or even at a premium. The Hoya Closed-End Average trading price for funds that invest mainly in U.S. stocks. The average discount for those funds has narrowed from -16.6 in 1987 to -4.7 currently. So by jumping in now, "you may be getting on a fair degree of price," says Colin Mathews, a closed-end analyst at Morningstar.



mpares buying a fund premium to picking a with a high price-to-ratio. east the difference in re allows for more sta- management of closed-end han open-end funds. If ck market suddenly de- closed-end funds won't qued with redemptions eed to sell holdings to as. "Closed-end funds down, too," says David ter, president of Limit- ply Securities in New But hopefully, the man- ill not have to cash in ps like the open-end

versely, in a bull mar- osed-end fund manag- it face the struggle to a mass inflow of cash ew investors. Closed- nds can often get an ver traditional mutual ecause they don't have tain cash to cover re- ons. Plus, only closed- nds can use leverage, nakes them riskier but s them to generate eturns.

THAN SKILL. If you are ted in trying a closed- nd, choose carefully. iverstor has to make a onged analysis," says d. "What are the pros- or the fund's portfolio? are the prospects for re price?" To judge the io, look for the same s that you would look for in any fund:

capable management, an investment strategy that fits in with your objectives, and low fees. But evaluating how the share price might move takes more skill. A good time to buy is when the fund is trading near its largest discount

pate or sell the fund then, since the value of their shares will be diluted. If you are interested in getting into a fund, the discount tends to be widest during the final day or two of the offering, says Herzfeld. The Malaysia

beginning of the year. "You want to be a buyer in December and a seller in January," says Herzfeld. "In fact, a significant portion of our profits are made by doing that."

HORSE'S MOUTH. To get information on rights offerings and IPOs, you will have to do some research. Major brokerage firms offer free reports on closed-end funds, but they may not cover the one you are interested in. Schachter says investors should get the prospectus and annual report directly from the company. He provides a free brochure listing the phone numbers for every fund (212 935-1100). He has also set up a free automated quote service for equity and country funds on the same line.

Several newsletters are available, including *The Investor's Guide to Closed-End Funds* from Herzfeld (\$325 a year, 800 854-3863) and *Frank Cappiello's Closed-End Fund Digest* (\$200 a year, 800 282-2335). Both will provide a free sample. Morningstar publishes comprehensive ratings in its biweekly *Closed-End Funds*, (\$195 a year, 800 876-5005). *Herzfeld's Guide to Closed-End Funds*, a 450-page paperback, provides a more thorough introduction to the group as well as data on individual funds (McGraw-Hill, \$22.95).

An easier point of entry to the closed-end world, says Stuart Goldberg, manager of mutual-fund research at Merrill Lynch, is to start with an open-end fund that you like, then check to see whether there is a closed-end version selling at an attractive discount. In a reverse example, John Templeton, chairman emeritus of Templeton Funds, sold his shares of Templeton Emerging Markets, a closed-end fund, at a premium of about 30% to buy the virtually identical open-end fund, Templeton Developing Markets, at net asset value last summer. But Goldberg says closed-end funds are really at their best when they supply access to a product or a market that you couldn't find anywhere else. *Amy Stone*

A LOOK AT CLOSED-END EQUITY FUNDS

FUND	DISCOUNT/PREMIUM TO NET ASSET VALUE (Nov. 12, 1993)	1993 TOTAL RETURN* (through Oct. 31)	3-YR. AVG. ANNUAL RETURN* (through Sept. 30)
ADAMS EXPRESS	-7.7	-2.12	19.56
CHARLES ALLMON TRUST	-7.0	1.28	7.73
ROYCE VALUE TRUST	-3.38	12.65	27.43
TEMPLETON EMERGING MARKETS	17.1	54.78	39.40
MEXICO FUND	-5.9	14.52	39.31
THAI FUND	-11.1	24	32.22
CLOSED-END FUND AVERAGE	-4.7	4.9	NA

*Based on share price, including reinvested dividends and capital gains
DATA: THOMAS J. HERZFELD & CO., MORNINGSTAR INC.

NA= Not available

or smallest premium, Herzfeld advises.

Closed-end fund investors debate what you should weigh more heavily—portfolio management or discount. Basically, if you are planning to buy and hold, a strategy that Schachter favors, first look at the underlying portfolio and investment strategy. But Herzfeld says investors are missing out on potential gains if they hold on to a fund, ignoring movements in the share price. "They are excellent trading vehicles," he says. "To overlook that is just shortsighted."

Experts caution against buying during an IPO. But the price often drops and becomes attractive just after the underwriters withdraw support, usually six to eight weeks later. For example, the new Global Small-Cap fund is now selling at a 6% premium, but Foot expects it to reach a 10% discount.

You can also try following the list of funds that are having rights offerings. Existing shareholders should either partici-

Fund, for example, has just finished up a rights offering and is now selling at about a 4% discount, says Foot. This risky but dynamic fund is up 46.8% based on share price through Nov. 12.

December is often the best time to buy because many people sell off their holdings for tax benefits. Closed-end funds also participate in the so-called January effect, which gives a lift to stocks at the

THE RIGHT TIME TO BUY

- When the fund is trading near its largest discount or its smallest premium
- At the end of the year, when people sell holdings for tax reasons
- When the underwriters stop promoting a new fund offering, usually six to eight weeks after it is introduced
- Just before the expiration of a rights offering, which dilutes the value of shares
- After some bad international news knocks down the price of foreign funds

DATA: BUSINESS WEEK



Smart Money

A MIDDLE ROAD BETWEEN BLUE CHIPS AND STARTUPS

When Standard & Poor's launched a midcap index in June, 1991, it shone a spotlight on stocks of mid-size companies. Since then, investment firms have scurried to create new midcap mutual funds such as PFAMCO's Midcap Growth—or to reposition old funds to focus on companies with market capitalizations of \$300 million to \$5 billion. With all the attention, you might think the best stocks had been taken. But midcaps should remain hot in the 1990s.

One reason is they offer a happy medium between growth and stability. They combine seasoned managers and operations with startup pizzazz. "Once companies survive the small-cap arena,

ing a bit. Over the past 15 years, however, the sector outperformed small and large caps, according to Marty Ryan, an analyst at consultant Frank Russell Co. He says: "It bats for average—it doesn't hit home runs."

GAINERS. While midcaps are no longer cheap, analysts say they're still fairly valued, with a price-earnings ratio of 22.57, vs. 24.05 for large caps. That's partly because they outnumber large-cap stocks and are less scrutinized. "Only half as many analysts follow midcaps, yet they make up one-third of the total market, vs. only 5% for large-caps," says Putnam's Silver. She points to Perigo, a \$2.3 billion maker of over-the-counter drugs, personal products, and vitamins with projected annual growth of 26% over the next five years. Its products often carry store labels and sell for 60% less than name brands.

When picking midcaps, look for companies that are gaining market share faster than their peers and that have higher return on sales and equity, says Alan Leifer, who manages Fidelity Investments' midcap Trend Fund. He also chooses stocks where management owns at least a 10% stake. Examples: Telephone & Data Systems, a wireless-communications company, and Centex, the nation's No. 1 homebuilder.

Or let a fund manager do the picking. It can be hard to tell which funds specialize in midcaps, since many don't have "midcap" in the name. It pays to ask, because only their managers know for sure.

Pam Black

MIDCAPS: A HAPPY MEDIUM

FUNDS	1993 TOTAL RETURN (through Oct. 31)	THREE-YEAR
FIDELITY TREND	19.8%	28.98
IAI MIDCAP GROWTH	18.92	NA
PUTNAM VISTA	13.39	26.53
DREYFUS' PEOPLES S&P MIDCAP INDEX	11.09	NA
S&P 500	9.79	19.08

NA=Not applicable

DATA: MORNINGSTAR INC.

they usually go through a growth spurt," says Jennifer Silver, portfolio manager at Putnam's Vista Fund, which switched from value to midcap stocks two years ago.

After a painful recession, midcaps pulled ahead of their larger brethren in the recovery, partly because of well-defined niches unaffected by the worldwide economic bust. Since 1991, midcaps have chalked up annual returns of 25.7%, close to the small caps' 28.7% but well above the S&P 500's 16%, says Prudential Securities analyst Claudia Mott. Midcaps soared in August and are now fall-



GOOD BLOODLINES: THE MUSTANG GT TAKES A CUE FROM THE

Autos

REMEMBRANCE OF PONIES PAST

The Mustang that rolls into dealer showrooms on Dec. 9 will be the first new version since 1979 of Ford's popular car. It's a revamp that almost didn't happen: In the late 1980s, Ford seriously considered slapping the Mustang badge on its sporty new front-wheel-drive Probe. Outraged traditionalists prevailed, and now they've got a muscular, all-American car that harks back to the legendary 1964 original.

This pony car is aimed not only at youthful racers; Ford also hopes to rev up interest among baby boomers who lusted after the Mustang in their teens. It is rear-wheel-drive nostalgia for anyone who recalls Steve McQueen careening around corners in a Mustang fastback in 1968's *Bullitt*. Rejecting smooth curves as too Japanese, and low-slung, steeply raked lines as too radical a departure from its roots, Ford opted for a bold, traditional look.

CHEAP THRILLS. This Mustang borrows styling cues from the 1960s classic: the long hood, deep side scoops, stubby back deck with triple taillights, and of course, the galloping pony on the grille. But the car has a longer wheelbase and wider stance. A stiffer chassis will improve handling of both the

coupe and convertible

One hallmark of the Mustang has always been thrills under the hood. Ford ditched its underpowered four-cylinder V6. The new base model, starting at \$13,365, is equipped with a 3.8-liter engine that kicks out 130 horsepower. The GT, from \$17,280, still has the 5.0-liter V-8—it's power lacks the sophistication of more modern multi-valve overhead-cam engines, but it's really smart: The GT is outrun by the Chevy Camaro Z28, which arrived last year with all the brute force of a Corvette-derived engine. The GT's 275 horses leave the Camaro's 215 in the dust. To close the gap, Ford plans to bring out a 240-hp model next spring.

The car has a five-speed manual transmission, and an electronic four-speed automatic option is available on the GT models. Dual air bags and four-wheel disk brakes are standard, antilock brakes an option. The convertible is easy to unlatch. After closing down, the top rests with the rear deck, and with a boot that's harder to snap on than its predecessor.

The two-tone paint wraps around a double-spoke pit-style dashboard, giving a clear display of instruments. Not unexpectedly, the car is noisy, thanks to wires in the V-8's throaty growl. You can always drown it out with a blast from the optional 460-watt audio system with MiniDisc player. Mustang, anyone? Kathleen Fry

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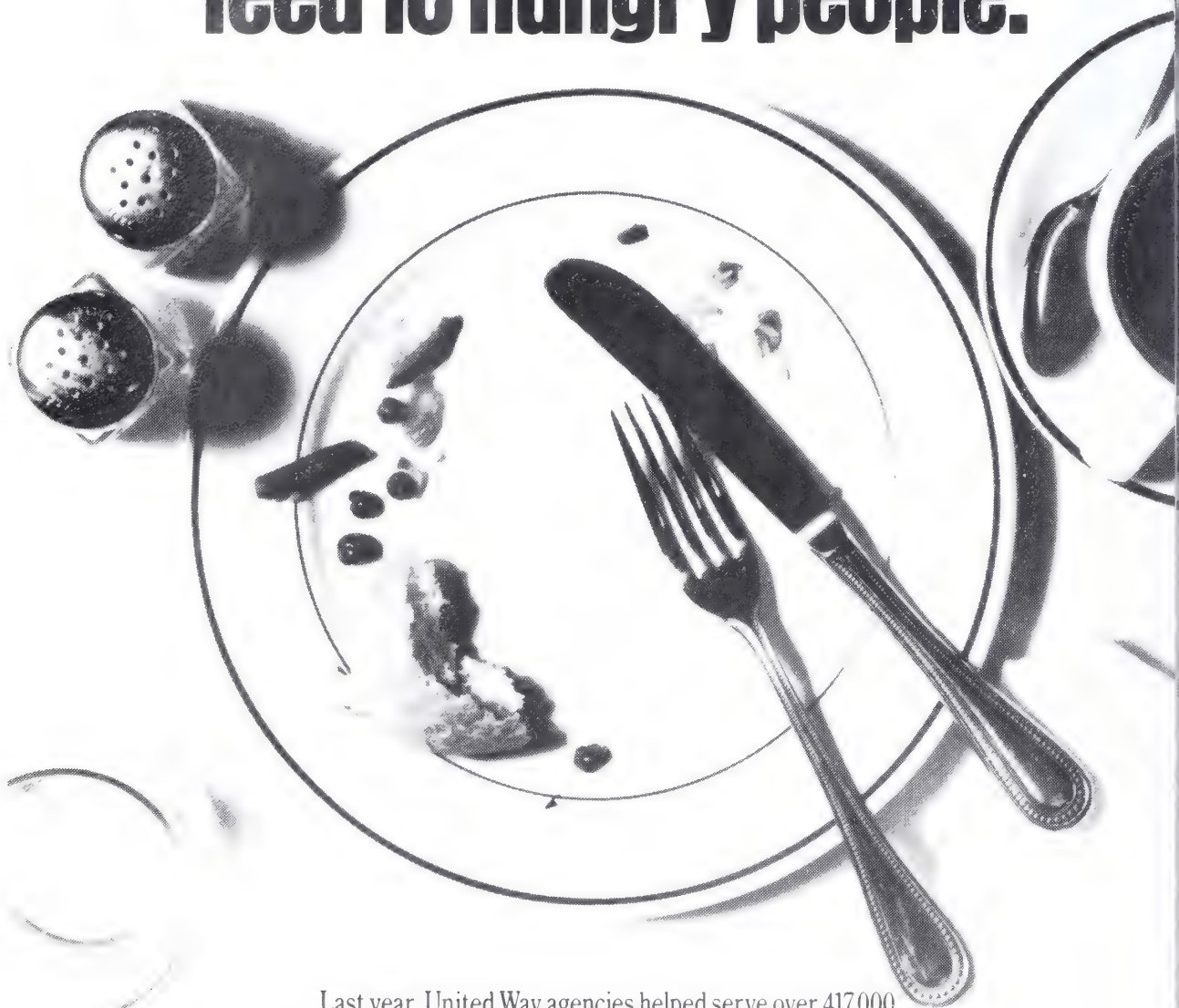
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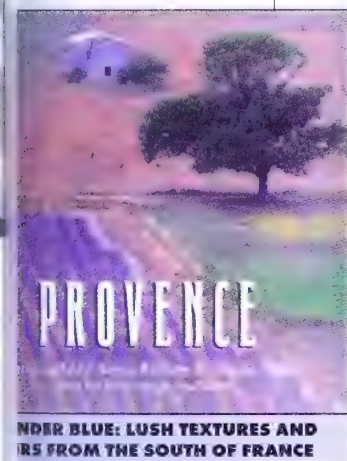
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*Operated by Helen Keller Services for the Blind Agency: GTFH, 114 Fifth Avenue, New York NY 10011

may be December, but the baseball season in bookstores, where the once strictly a spring is hot. That's no fluke: Publishers this year have plenty of down-to-earth books alongside their many full art and photography books.

Among the best tickets to ballpark is *Baseball's Golden Age* (Abrams, \$29.95). It charts the sport's heyday features of the greats—Ruth, Honus Wagner—the near-greats, each capped with a baseball yarn. Hall of Famers make appearances in *Baseball Days* (Ch, \$24.95), too, but this painting book celebrates the game of baseball more fully: Its candid photos of the sandlots, the fans, women's and minor leagues, as well as the major league set amid baseball's *Baseball Archaeology* (Dial, \$29.95) excavates



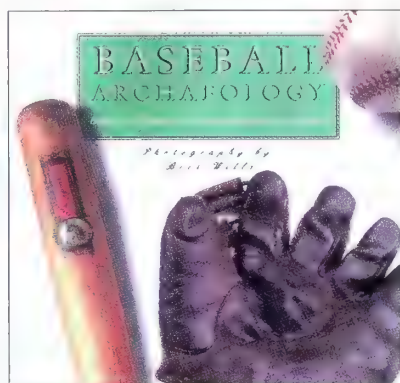
UNDER BLUE: LUSH TEXTURES AND COLORS FROM THE SOUTH OF FRANCE

baseball's artifacts. Bats, spikes, cards, tickets, other relics are drawn from the Hall of Fame and other collections.

Painting fields of another era on view in *Golf of the World* (Abrams, \$29.95), an informative guide to the world's finest courses including Turnberry in Scotland, the Greenbrier in Virginia, and Pebble Beach in California. The book describes the rooms, restaurants and other facilities, and playing tips. *Peaks of the World* (Thomasson-Grant, \$29.95) exposes the strenuous of mountaineering, re-

Books

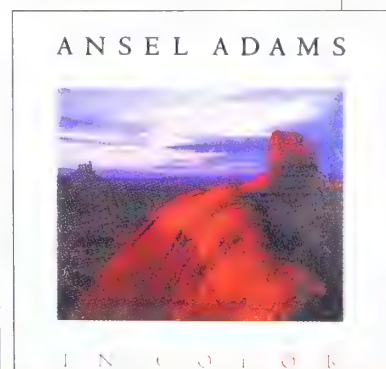
...AND A PICTURE BOOK IN A PEAR TREE



EXCAVATED ARTIFACTS: BATS, MITTS, AND MORE FROM THE HALL OF FAME

counting expeditions to the world's tallest peaks. Images of earth meeting sky at Mount Everest, K2, and the Matterhorn may spark a few journeys, at least of the armchair variety.

The South of France has always beguiled travelers, and *Provence* (Abbeville, \$45) shows why the region has drawn them—and inspired so many artists and writers. The land's gorgeous texture, color, and form shine through in 150 pictures, accompanied by stories and quotes. Documenting America's glory is harder, but *Look at the Land* (Rizzoli, \$50) offers a fresh view—from above. This revealing book delivers stunning aerial views of natural and created environments. Matching both books in grandeur is



HOW THE WEST WAS VIEWED: FORTY YEARS OF FILM IN PRINT—AT LAST

Ansel Adams in Color (Little Brown, \$50). Although the famed photographer used color film for 40 years, poor reproduction techniques stopped him from publishing his color photos. No more. Adams' traditional subjects—landscapes, especially the national parks—are here in deep hues, delighting anyone interested in photography.

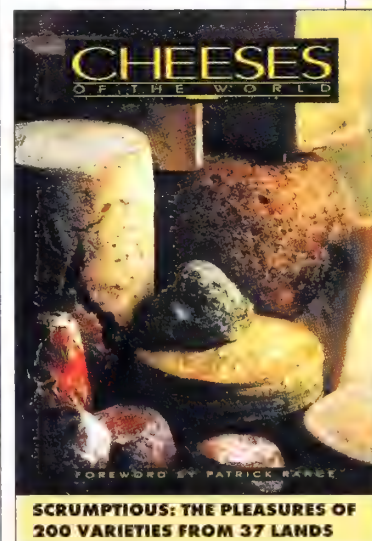
For the musically inclined, there's *Nothing But the Blues* (Abbeville, \$45). It presents a pictorial history of this American musical form—its Southern roots, traditions, regional and stylistic dimensions, and many practitioners, such as Bessie Smith and Leadbelly. Movie fans will covet *Film: An International History of the Medium* (Abrams, \$49.50), a truly comprehensive survey. It's easy to dip into—and chockablock with memorable stills.

GILDED AGE. For art lovers, *American Art in the 20th Century* (Prestel, \$65) gives a fresh assessment of such American-born movements as Abstract Expressionism and Minimalism, and it charts the rise of some 60 prominent artists. History buffs will like *Families of Fortune* (Rizzoli, \$50). It depicts the gilded age, telling how the Rothschilds and the Rockefellers, the Astors and the Vanderbilts made their vast fortunes and spent them—through touring, building castles, collecting art, yachting, partying—and otherwise consuming conspicuously.

The long days of winter could be brightened by a look at *Family Houses By the Sea* (Clarkson Potter, \$45). Anyone who has ever dreamed of a summer place will fancy its exploration of 21 coastal houses in the

U.S., France, England, and Scandinavia. All fashioned by the occupants, not decorators, they range from a barn in Devon to a villa on Cap Ferrat to a manor house on the Baltic. Brief narratives provide a window on the lives of the owners.

Finally, there's *Cheeses of the World* (Rizzoli, \$45), which describes 200 kinds of cheese made in 37 countries. After learning about origin, appearance, taste, production methods, and fat content, readers find it easy to try out, say, Reblochon, Siraz, or Cabrales.



SCRUMPTIOUS: THE PLEASURES OF 200 VARIETIES FROM 37 LANDS

Anyone who loves cheese will open this book again and again. The same, of course, may be said for many of the other books on this shopping list.

Judy Dobrzynski

Worth Noting

■ **ROOM BONUS.** Radisson Hotels International is giving triple frequent-flyer mileage for stays from Dec. 1, 1993, through Mar. 31, 1994. Just pay a full or corporate room rate and collect 1,500 to 3,000 bonus miles for Northwest, USAir, Delta, or four other carriers. Restrictions may apply.

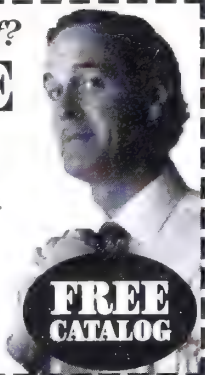
■ **INVESTOR TOOL.** *Analyst Watch* from Zacks Investment Research provides investors with updated earnings estimates and recommendations made by 2,500 Wall Street analysts for 4,000 stocks. A three-month trial subscription costs \$55. Call 800 399-6659.

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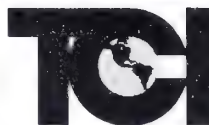
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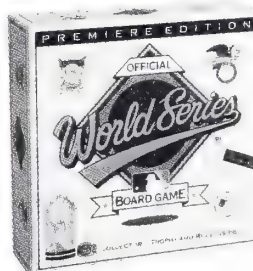
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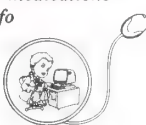
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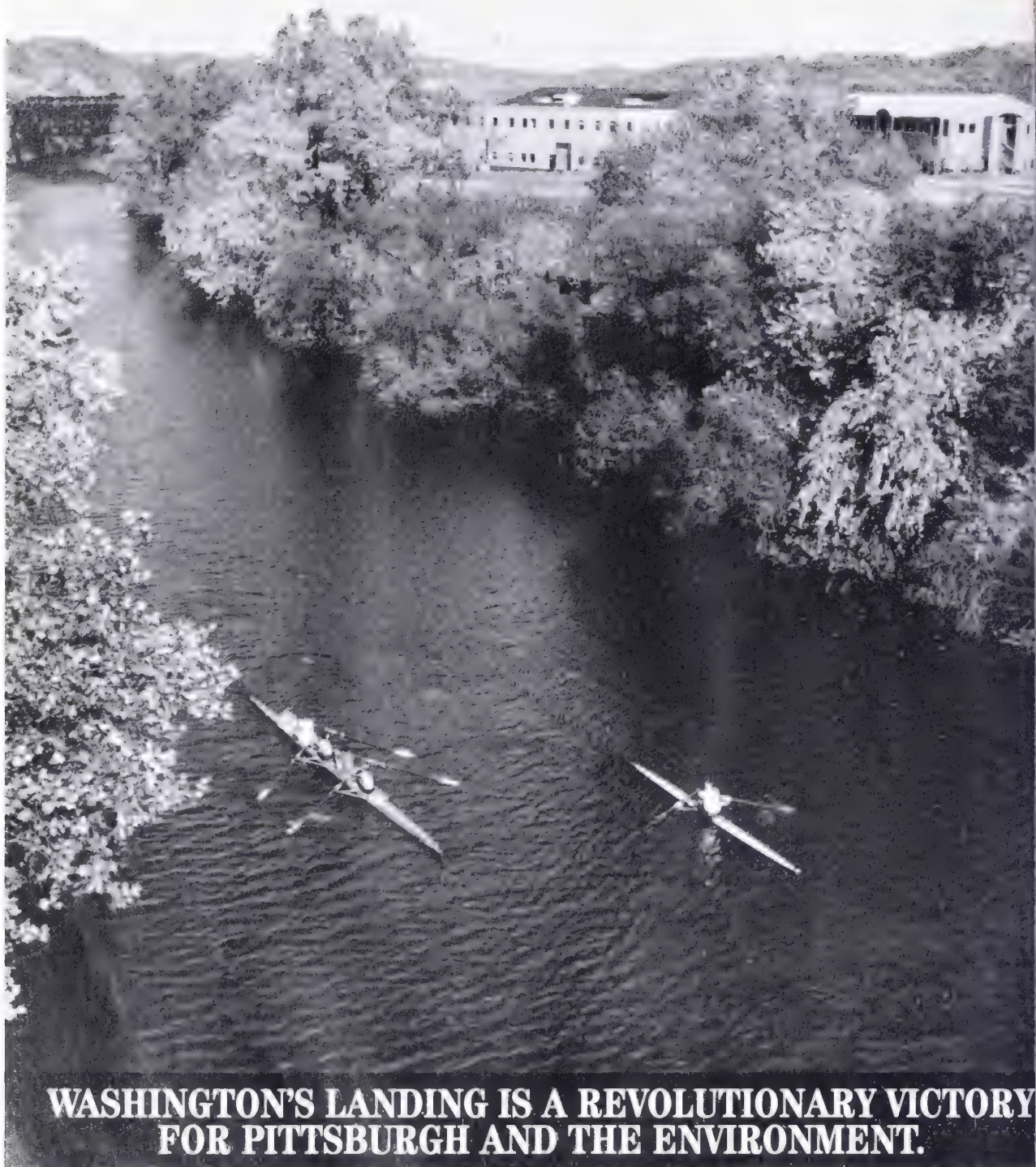
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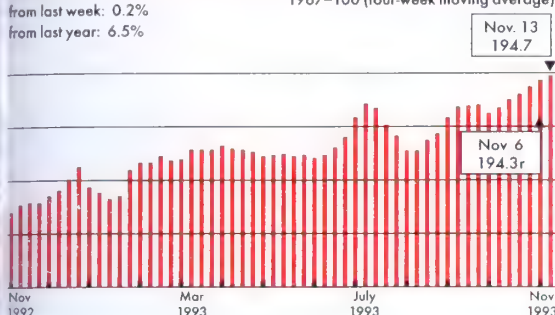
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BusinessWeek Index

DUCTION

from last week: 0.2%
from last year: 6.5%

1967=100 (four-week moving average)

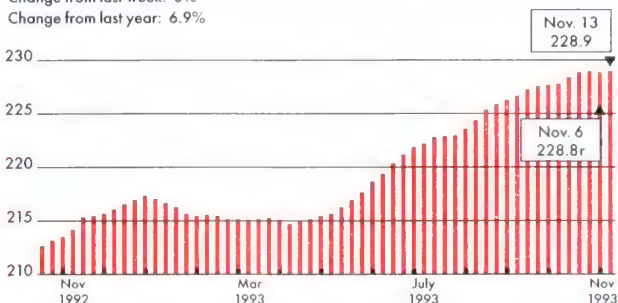


Production index increased slightly during the week of Nov. 13. Seasonally adjusted production levels of steel, paperboard, and lumber rose, while auto, coal, electric power output plus rail-freight traffic were unchanged from the previous week. Crude-oil refining, and coal production fell. Before calculation of the four-week moving average, the index stood at 195.6, barely changed from the level posted the week before.

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: 0%
Change from last year: 6.9%



The leading index edged up during the week ended Nov. 13, recovering the ground lost in the previous week. The growth rates of M2, real estate loans, and materials prices all improved; however, stock prices and bond yields continued to deteriorate. Data for the number of business failures were unavailable for the most recent week. Before calculation of the four-week moving average, the index rose to 230.7, from 228.4.

Leading index copyright 1993 by Center for International Business Cycle Research

DUCTION INDICATORS

	Latest week	Week ago	% Change year ago
11/20) thous. of net tons	1,789	1,893#	3.1
11/20) units	130,208	140,808r#	25.2
11/20) units	111,191	112,681r#	18.4
POWER (11/20) millions of kilowatt-hours	55,290	56,072#	-1.4
OIL REFINING (11/20) thous. of bbl./day	NA	13,658#	NA
11/13) thous. of net tons	19,294#	19,003	-3.6
WARD (11/13) thous. of tons	840.7#	831.0r	5.9
11/13) thous. of tons	822.0#	849.0r	1.9
11/13) millions of ft.	499.5#	476.4	1.9
EIGHT (11/13) billions of ton-miles	23.1#	22.8	2.7

American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, Petroleum Institute, Energy Dept., American Paper Institute, WWP/PA, SPPA, Association of Railroads

IGN EXCHANGE

	Latest week	Week ago	Year ago
YEN (11/23)	108	107	124
MARK (11/23)	1.70	1.71	1.60
POUND (11/23)	1.49	1.48	1.51
FRANC (11/23)	5.91	5.91	5.44
AN DOLLAR (11/23)	1.33	1.32	1.29
RANC (11/23)	1.49	1.50	1.45
N PESO (11/23) ¹	3.100	3.215	3.110

¹ Major New York banks. Currencies expressed in units per U.S. dollar, except for British pounds expressed in dollars

ES

	Latest week	Week ago	% Change year ago
11/23) \$/tray oz.	377.600	375.000	13.0
CRAP (11/22) #1 heavy, \$/ton	137.50	137.50	54.5
UFFS (11/22) index, 1967=100	222.3	220.8	9.8
(11/20) ¢/lb.	79.2	80.0	-21.2
UM (11/20) ¢/lb.	50.5	49.5	-5.3
(11/20) #2 hard, \$/bu.	3.95	3.66	4.8
(11/20) strict low middling 1-1/16 in., ¢/lb.	56.05	56.48	10.4

¹ London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals and Minerals City market, Memphis market

in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment in Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (11/19) S&P 500	464.30	462.46	9.9
CORPORATE BOND YIELD, Aaa (11/19)	6.94%	6.92%	-14.0
INDUSTRIAL MATERIALS PRICES (11/19)	94.1	94.0	-2.5
BUSINESS FAILURES (11/12)	NA	341	NA
REAL ESTATE LOANS (11/10) billions	\$407.7	\$405.1r	0.2
MONEY SUPPLY, M2 (11/8) billions	\$3,505.4	\$3,494.6r	0.9
INITIAL CLAIMS, UNEMPLOYMENT (11/6) thous.	358	340	-7.3

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
HOUSING STARTS (Oct.) annual rate, thous.	1,396	1,359r	13.9
BUDGET SURPLUS OR DEFICIT (-) (Oct.) millions	-\$45,343	\$8,300r	-7.1
IMPORTS (Sept.) millions	\$49,751	\$48,097r	8.2
EXPORTS (Sept.) millions	\$38,866	\$38,050r	3.2

Sources: Commerce Dept., Treasury Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/8)	\$1,118.4	\$1,118.4r	9.8
BANKS' BUSINESS LOANS (11/10)	272.0	273.5	-2.8
FREE RESERVES (11/10)	923r	873r	39.4
NONFINANCIAL COMMERCIAL PAPER (11/10)	158.8	161.0	6.6

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/22)	3.05%	3.02%	3.10%
PRIME (11/23)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (11/22)	3.42	3.40	3.79
CERTIFICATES OF DEPOSIT 3-MONTH (11/23)	3.36	3.32	3.67
EURODOLLAR 3-MONTH (11/19)	3.34	3.38	3.79

Sources: Federal Reserve Board, First Boston

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WHERE PRESIDENTS SHOULDN'T TREAD

President Clinton's dramatic intervention in the American Airlines Inc. strike raises worrisome questions about when and how the government should stick its nose into labor-management disputes.

Just the day before, American Chairman Robert L. Crandall refused a request from flight attendants for arbitration. His reason: The company must lower its costs to be competitive, and an arbitrator is likely to simply split the difference between the two sides. Since that's usually how arbitrators work, Clinton's action may set back American's cost-control efforts. That message won't be lost on unions at United Airlines, Delta Air Lines, and USAir.

The great danger is that the President's intervention will be interpreted throughout the economy as the reverse of what President Reagan did in the air-traffic controllers' strike. The worry is that this time, instead of holding down wages, the government will set a pattern of expensive pro-union contracts that drives up inflation. If Clinton is sending a post-NAFTA signal to unions that he will back them against management in all their disputes, the economy is going to face new inflationary pressures just as it's picking up steam.

Can a neutral outsider help American and the other major airlines solve their problems in a more peaceful fashion? Crandall has suggested that he wants to try a cooperative approach. But instead, both Crandall and the unions seem to have pursued the old-fashioned brinksmanship bargaining that often leads to lost jobs and red ink.

Maybe an arbitrator will help. But barring any national emergency, which this airline strike was not, President Clinton should use his political clout for solving broader economic problems.

JAPAN CAN'T IGNORE ITS RECESSION AWAY

Economic fundamentals in Japan are bad and getting worse. Output is falling, profits are collapsing, the stock market is plummeting, and, for the first time in decades, people are truly afraid for their jobs. Secure lifetime employment is becoming a memory of the past.

Yet the government is doing little. Prime Minister Morihiro Hosokawa continues to delay government plans to boost the economy, instead focusing on voting reform. That's what Hosokawa was primarily elected to do—to remake Japan's corrupt political system. But he is playing with fire by underestimating the depth of the country's economic malaise.

The soaring yen has set off a massive restructuring not unlike what occurred in the U.S. during the '80s. Companies that built huge capacity over decades of expansion suddenly find themselves in need of serious downsizing. The high yen has forced them to shift factories to lower-cost countries.

Although unemployment is officially listed at 2.6%,

Japanese government studies show that up to 16% of total labor force may be redundant. Pressure is increasing to break Japan's social contract and cut excess labor.

If Japan is to avoid further economic stagnation and large-scale social dislocation, it must boost domestic demand. But government policy is in deadlock. Hosokawa is pushing for a modest income-tax cut, but the Finance Ministry will offset it with an equivalent consumption-tax increase.

Meanwhile, calls go unheeded for deregulation to stimulate competition and pass on the benefits of the strong yen to consumers. Bureaucrats are again quashing any moves in that direction.

The Nikkei stock average is down 15% since October, and nearly 60% since '89. The talk in Tokyo is that the slump simply reflects the Finance Ministry's decision not to support the market at this time. Insiders say the ministry will support the market again in the spring, as it always does.

But maybe this time, for the first time, the Nikkei's falling fortunes reflect deep structural problems in the Japanese economy. The Hosokawa government would do well to act quickly—with a big income-tax cut and deregulation of the economy.

THE BIGGEST PENSION SCOFFLAW? UNCLE SAM

For many corporate execs, the hypocrisy Uncle Sam continues to display on the subject of pensions is appalling. On Nov. 22, just in time for Thanksgiving, the government issued its annual list of the 50 companies with the worst pension woes. Again, the potential problems with these supposed corporate turkeys seem to have grown.

The Pension Benefit Guaranty Corp. says the unfunded liabilities of the worst 50 pension plans grew 31% last year to \$38 billion, of which \$31.7 billion is guaranteed by the federal government.

But for all the rhetoric about these corporate scoundrels, there's no mention of the problems in Uncle Sam's backyard: If the government were forced to adhere to the same accounting standards, retirement programs for federal and military employees would be underfunded by more than \$1 trillion (BW—Aug. 9). What's more, if Uncle Sam were required to reserve for pensions as they are accrued by private employers—the way corporations are—the federal budget deficit would be roughly one-third higher.

The problem of underfunded federal pensions will only worsen. Thanks to aging baby boomers within the civil service, the funds needed to cover annual benefit payments by 2010 are expected to nearly triple, to \$160 billion.

Where will this money come from? Either Congress must slash the benefits of federal employees—which are more generous than those of many private plans—raise taxes, cut other programs, or allow the federal deficit to soar further. The benefits and programs are the way to go.

Congress has a more immediate responsibility: to establish proper accounting standards, similar to those imposed on the private sector, to reflect accurately the future liability of government pensions. To continue to ignore this potential problem does a disservice to the next generation of taxpayers who will have to pick up the tab.



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THE ECONOMICS OF CRIME

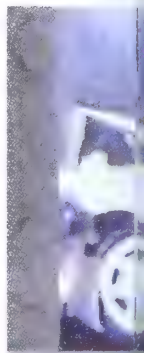
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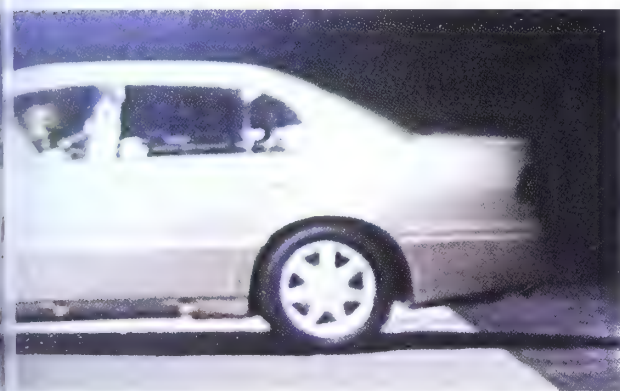


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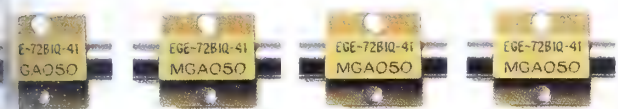


As you can see, this guy's spine is curved to mimic the driver's slouch. His neck is designed to illustrate more human fore-and-aft movement. And his torso even has ribs.

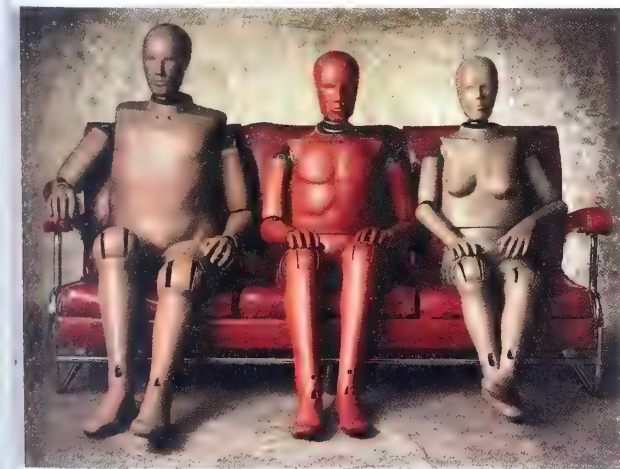
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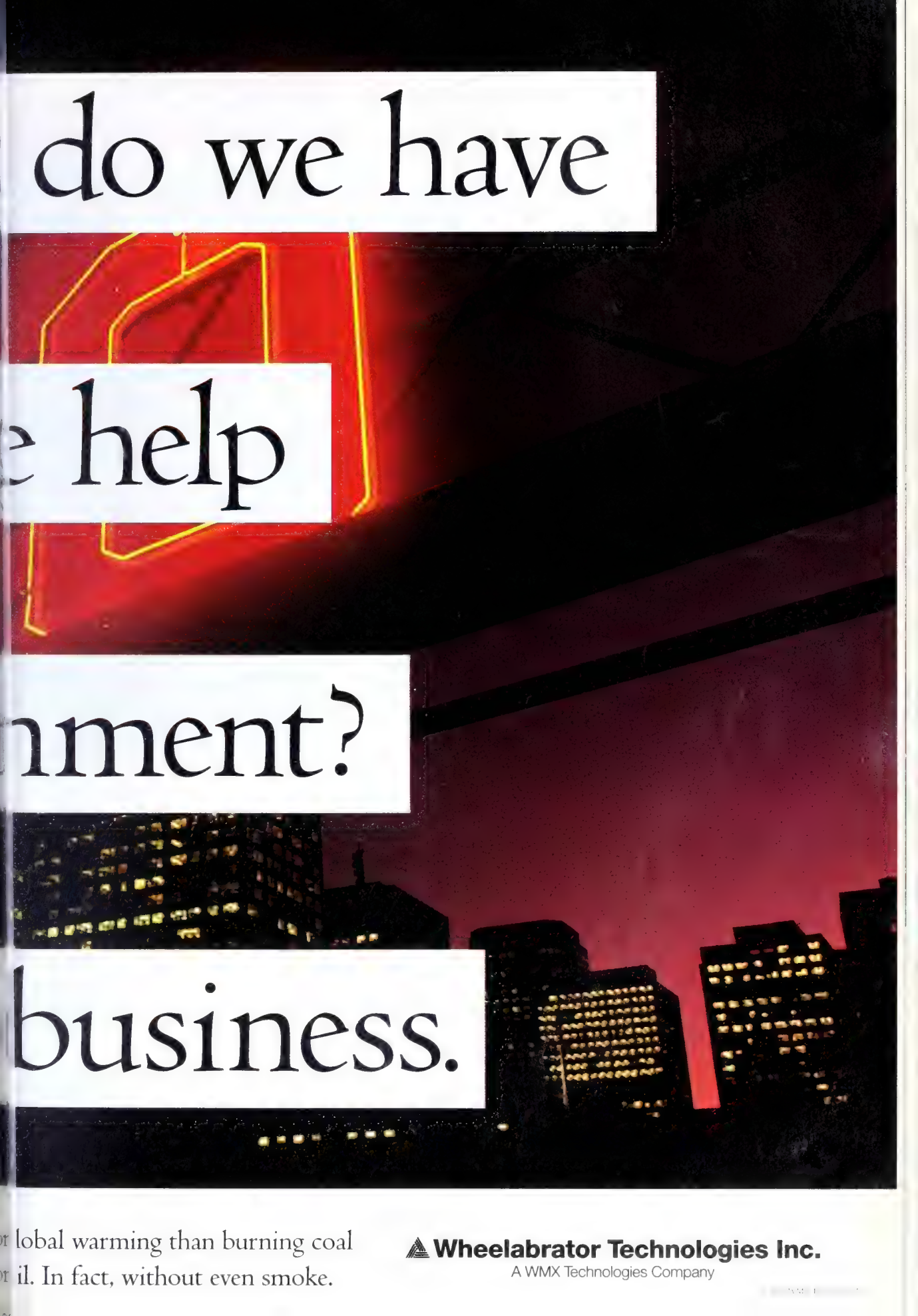
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SHOW OF FORCE: STUDIES INDICATE THAT PUTTING MORE POLICE ON THE STREET IS A BETTER DETERRENT THAN LONGER PRISON SENTENCES

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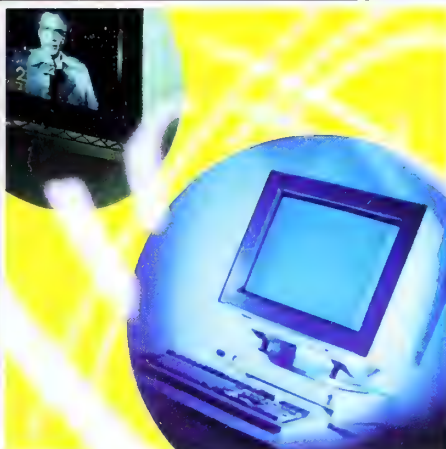
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How Clinton could "end welfare as we know it"



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LOEWS CEO LAURENCE TISCH HAS SEEN THE STOCK DROP 23% IN A YEAR, BUT MANY SPECULATE HE'S BIDDING HIS TIME FOR MORE LUCRATIVE SELL-OFFS



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For services, pay dirt at last
With a homegrown chip, Big Blue tries to chip away at Intel

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HOT, HOT, HOT

There are still some good values in emerging markets, but many stocks may be rocketing out of control

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A worldwide manhunt for Bazarian ends in San Juan, where the feds find the scamster... at the movies

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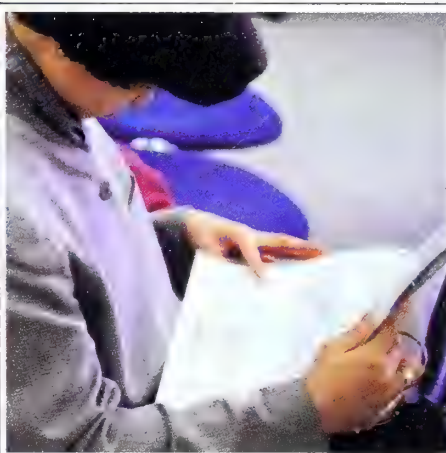
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TALK SHOW

Nothing on the horizon suggests an economic recovery.... There is nothing to look forward to at the moment.

—Richard Koo, senior economist at Nomura Research Institute, on the plunges in the Nikkei stock index amid signs of paltry tax cuts.

EDITED BY LARRY LIGHT AND JULIE TILSNER

AFTERLIVES

CATCHING UP WITH THE SICK-THRIFT FIVE

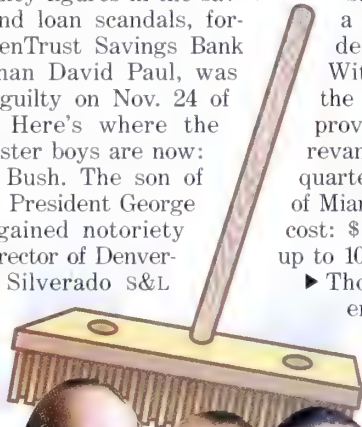
Time for an accounting in the thrift debacle, which so far has cost taxpayers \$80 billion to clean up. The last of the key figures in the savings and loan scandals, former CentTrust Savings Bank Chairman David Paul, was found guilty on Nov. 24 of fraud. Here's where the S&L poster boys are now:

- Neil Bush. The son of former President George Bush gained notoriety as a director of Denver-based Silverado S&L

increased for federal offenses. The former chief of Irvine (Calif.)-based Lincoln S&L (failure cost: \$2.6 billion) is appealing an order to pay \$36 million in restitution.

- David Paul. His case centered on charges that Paul, 54, diverted \$3.2 million in bank funds to pay for a 95-foot yacht and to decorate his homes. Witnesses say he hid the cost of his home improvements amid bills to revamp the thrift's headquarters. The former CEO of Miami's CentTrust (failure cost: \$1.6 billion) could get up to 10 years in jail.

- Thomas Spiegel. The erstwhile chief of Columbia S&L in Beverly Hills, Calif., (failure cost: \$2 billion) is facing charges of misusing Columbia funds. Plus, there's a federal claim for \$40 million in damages. The government also holds the Columbia-issued mortgage to his mansion. Spiegel, 47, has defaulted on the mortgage, and the feds seized his house on Nov. 1. *Kelley Holland and Gail DeGeorge*



ROLLING ALONG: In or out of the pokey, life goes on for S&L kings (clockwise from lower left) Spiegel, Dixon, Bush, Keating, and Paul

(failure cost to feds: \$1 billion). Bush, 38, agreed to pay \$50 million to settle charges. Published reports had him in Kuwait this spring, trying to cut oil deals. He couldn't be reached for comment.

- Don Dixon. He's behind bars these days for bank fraud as onetime head of defunct Vernon S&L in Vernon, Tex. (failure cost: over \$1 billion). In April, a federal judge doubled his five-year sentence. Reason: It surfaced that Dixon, 54, had used Vernon funds to buy a private jet.

- Charles Keating. He is the best-known of the S&L financiers. You probably recall the brushfire touched off two years ago by his gifts to five U.S. senators. Keating, 70, just had his 10-year sentence

LABOR PAINS

WAS CLINTON'S PHONE CALL SUCH A BIG SURPRISE?

Hard-nosed American Airlines Chairman Robert Crandall wants the world to think he caved in to Bill Clinton's pressure to end the carrier's five-day strike right before Thanksgiving. Not quite.

Doke says the airline "was in the business of arching this solution," but that someone else thought he had the company's interests at heart could sent the message. Reagan

it was an easy call to send to Clinton: The Clintones were in contact with sides, unlike hands-off GOP predecessors.

One reason Crandall likely abandoned his hard line was fear that

White House would hardball and pose another kind of arbitration. Sure, the carrier had motives to end the strike: It was spending \$10 million to \$20 million a day at



AA'S CRANDALL: A way to save face easily

Clinton Administration officials and sources close to AA say people in "Crandall's camp" let the White House know in advance that he wouldn't object strenuously to an end to the five-day flight attendants' walkout and to binding arbitration.

Crandall isn't eager to concede that. AA spokesman Tim

gering passengers. But Crandall says American was concerned that Clinton would bring a so-called Presidential Impasse Resolution to the agency Board. And from the dispute could have been up before the Democratic-controlled Congress, which felt would favor organizing labor over management. *Payne and Wendy Zellner*

REALITY CHECK

MAJOR AIRLINES SAY they are getting creamed by leaner rivals, particularly Southwest, largely or solely because of the rivals' lower labor costs. The drive to rein in these costs sparked the recent strike at American, ended only by White

House intervention. Such talk has prompted United to consider splitting itself into several smaller carriers, which will pay workers less. Indeed, many smaller airlines pay as much as 60% less than American, United, and Delta.

IN REALITY, pay rates themselves are not the only problem. Successful Southwest, for instance, pays higher wages than Continental, which recently emerged from bankruptcy. Southwest produces more flying time for the wages it pays. Its pilots make an average of \$93,000 but fly 70 hours a month,



whereas United pilots make an average of \$108,000 and log only 55 hours a month. Southwest and its small cohorts benefit from a simple point-to-point system. Their planes don't wait at hubs for connections. Result: Southwest's planes turn around in 20 minutes vs. an hour or more of costly dead time for the Big Three.

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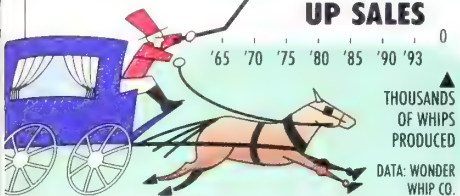
Up Front

BUSINESS SPEAK

PUTTING A TIRED CLICHE OUT TO PASTURE

One of the hoariest clichés in business circles posits the buggy whip as a paradigm of obsolescence. In conversation and press reports, buggy whips are a product you don't want to be in. We cite this

WHIPPING UP SALES



remark by Leigh Johnson, head of Rochester (Minn.)-based alarm maker Custom Communication: "We watch

carefully so we don't become a seller of buggy whips."

Well, the buggy whip industry is thriving, thank you. There are at least two domestic whipmakers, Wonder Whip in Fostoria, Iowa, and Westfield Whip Mfg. in Westfield, Mass., with Taiwanese-made whip rivals coming on strong. Westfield Whip won't release figures, but Wonder Whip's sales have exploded since its founding in 1961 (chart). Whips, which are 5 feet to 6 feet long, cost from \$7 to \$17.

Why the continued popularity? Harness racing is one market, as are horse-drawn carriages for tourists. And the Amish, who shun cars, need them to get around. Lesson: Avoid this cliché like the plague. □

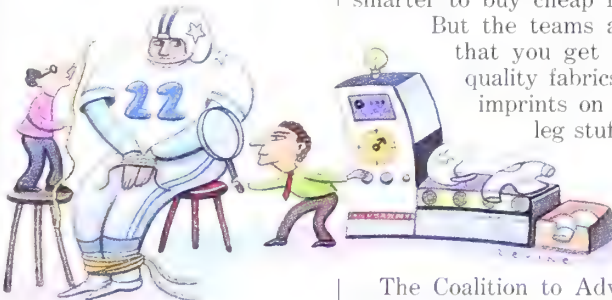
BALLPARK FIGURES

HERE COMES THE BLITZ ON KNOCKOFF ARTISTS

'P'sst. Want a Cowboys sweatshirt half-price? How about a 49ers cap, cheap?" Only one problem with the goods the shifty-eyed hustler is peddling outside the stadium. The bright team logos may look authentic, but

to outside vendors, a team gets up to 5% of an item's retail price. That's a nice chunk of the \$8.4 billion-a-year team-merchandising business. Now, with a Dallas Cowboys sweatshirt going for \$30 and a cap for \$19, you might say it's smarter to buy cheap fakes.

But the teams argue that you get poor-quality fabrics and imprints on bootleg stuff.



they're knockoffs. So, pro sports leagues are cracking down on the counterfeiters, with dozens arrested in the past year, nearly \$4 million in merchandise seized, and more action expected as the National Football League play-offs and the Super Bowl loom. No wonder teams are mad. Copycatting costs them plenty. By licensing its trademark

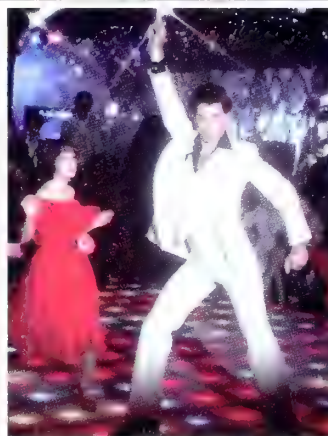
The Coalition to Advance the Protection of Sports Logos—formed by NFL Properties, Major League Baseball Properties, and others—has hired scores of gumshoes, helped by federal agents and local police, to crack down. On Nov. 17, the LogoCops raided a manufacturer in Los Angeles, snaring two truckloads of 20,000 items and screen-printing gear, worth \$1 million in all. Joseph Weber

DRAWN AND QUARTERED



BABY BUSTERS

TALK ABOUT A LOST GENERATION



FEVER FLICK: Travolta, the masses

Get ready to do the Time-Warp again: Generation Xers, bored with *The Rocky Horror Picture Show*, are turning to *Saturday Night Fever*

as their midnight flick choice. With the resurgence of 1970s music and fashion, Los Angeles theater gave the John Travolta opus another spin earlier year. And twentysomethings responded with gusto, dancing up as the characters, as *Rocky Horror* devotees. Trouble is, there have been so many requests for *Fever* released in 1978, that Paramount must churn out more prints. Right now, a few copies exist. The young moviegoers want the raucous R-rated version, instead of the PG-13 that's available. "It's not yet a cult movie, it's moving in that direction," says a Paramount spokesman.

You can see why the studio wants *Fever* to keep staying alive. *Rocky Horror*, a flop on its 1976 release by 20th Century Fox, has grossed \$1 million in midnight runs.

THE BIG PICTURE

'TIS THE SEASON...

It's the best of times for retailers, especially department stores, some of which rake in as much as 50% of their yearly sales during the holidays. And this year looks good so far, retailers say.



FOOTNOTES

Offices, lower Manhattan: 25.2% vacancies; 0 sq. ft. being built. Washington: 10.2% vacancies; 660,000 sq. ft. being built.

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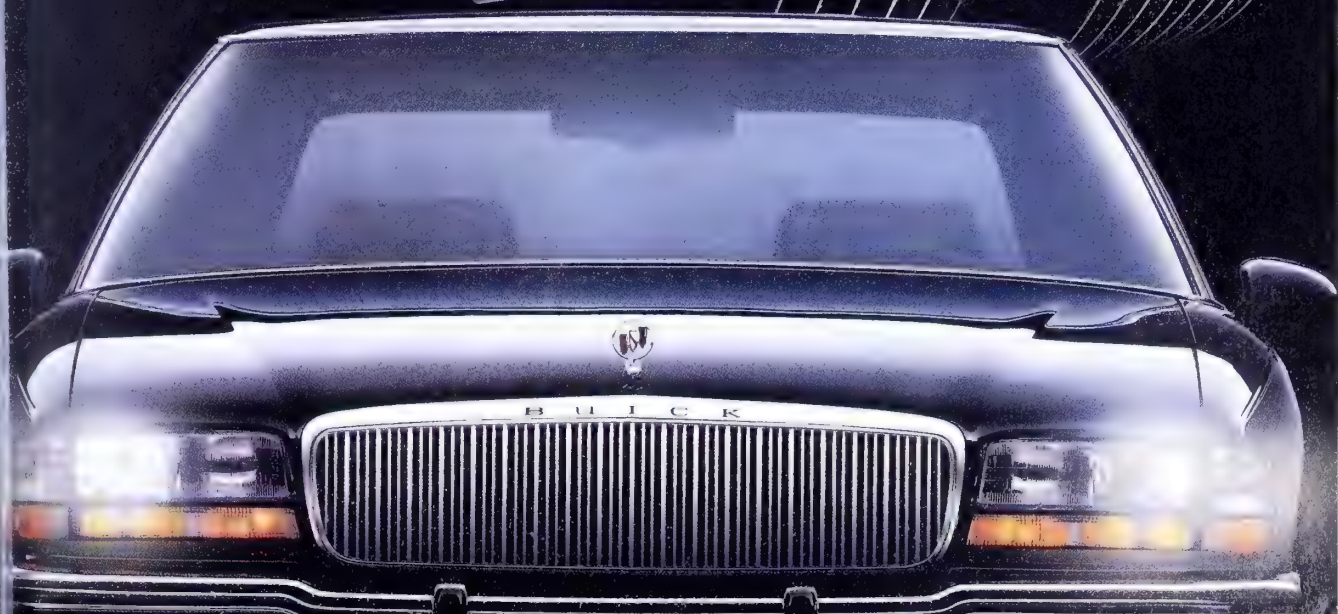
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WOMEN AT THE BOARDROOM DOOR

While I was not particularly surprised to read that only 6.2% of directors are women ("The glass ceiling: A barrier to the boardroom, too," Top of the News, Nov. 22), I was stunned to learn that 49% of female directors come out of education. It is time to give women from a variety of disciplines the opportunity to make valuable contributions at the top echelons of the nation's businesses.

If Corporate America wants to avail itself of this underutilized resource, maximize the potential for meaningful contribution, and reduce the risk of mistakes, here are my suggestions:

■ Bring in outsiders. Reaching outside your own company is a safe method of easing women into what might otherwise be an unwelcome or unpracticed boardroom environment.

■ Test potential board candidates. Give women one-shot, project-oriented assignments that are visible and necessitate board interaction. That way, board members can get to know them, and if and when they are invited to join the club, they will be welcome and adjust readily.

■ Find professionals with expertise. Investment bankers, corporate attorneys, and accountants are experts in their fields who have a strong likelihood of contributing in significant ways.

■ Welcome women for their specific business skills and overall contribution. Do not bring in a woman and put her in charge of "women's issues."

The American Boardroom would benefit greatly from the expertise, professionalism, and fresh perspective businesswomen are able to bring.

Patricia M. Hall
President and CEO
Hallmark Capital
New York

Judith Dobrynski correctly points out that relatively few women serve on the boards of the largest corporations. But she fails to recognize or chooses to ignore that such companies grew and prospered without female leadership. Dobrynski advances a meritless argu-

ment that more women should serve on boards simply because so few of them now hold such positions.

For the most part, the character, ability, and talent of men have made American corporations. Historically, it was men who risked financial stability and reputations to develop good products and service-providing companies. The results have been spectacular. After the railroads have been built, the backs and brains of men, we feel the need to jump on board and demand to be included in determining how to make the trains run on time.

My professional and educational experiences have shown me that women have the same intelligence as men. The reason they are underrepresented on boards is because they have not been given the initiative to build companies.

Patrick Wiseman
Lawrence, S.C.

IT'S A SHORTAGE OF JOBS, NOT OF SKILLS

You failed in your argument that why the U.S. presently imports thousands of software engineers ("Reality check," Up Front, Nov. 22). As an unemployed software engineer, laid off a year ago after 13 years with Digital Equipment Corp., I (and many of my friends) can assure you that it is not because of any lack in the supply or quality of homegrown engineers.

In reality, trade publications such as *Electronic Engineering Times* regularly feature letters and columns bemoaning the effects on our wage scale: an influx of foreign engineers on student and temporary visas. Also, countries such as Russia are mounting strong campaigns to persuade U.S. companies to export software engineering jobs overseas.

Bruce McQuinn
Troy, N.Y.

I suggest you read Virginia Abernethy's book *Population Politics* and read your "Reality check." Abernethy's book states with convincing evidence and challenges us to face population control. As a few unemployed software engineers and physical therapists what they say about the temporary visas. The

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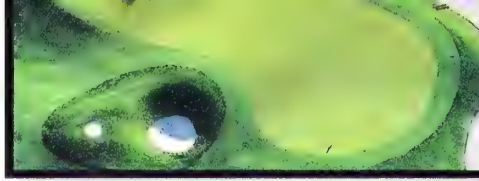
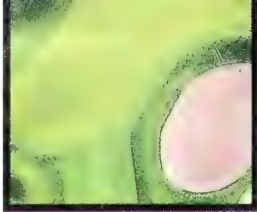
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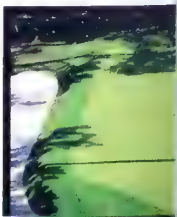
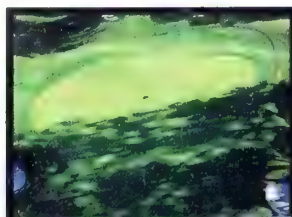
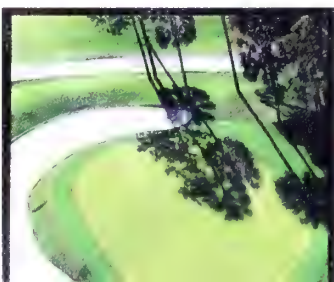
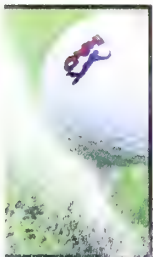
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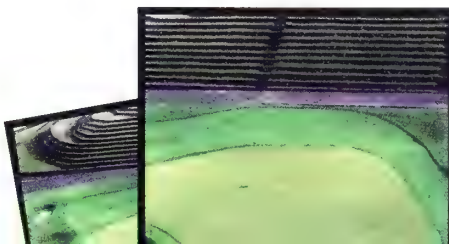
Golf is a mental game, and golfers are always nervous. So I constantly try to work on their idea of how a hole ought to be played. Nowadays the only ally I have is water; that's the only hazard they can't recover from. Sand is a realyookidying you know

at all these TPC golf clubs, and it does just as much for the bad golfer as it does for the good ones.

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Pete Dye
Golf Course Designer & Builder

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Readers Report

has an abundance of labor and a shortage of jobs. Retraining within our present job market should take precedence over importing labor from outside our shores.

Joan K. Smith
Mt. Morris, Mich.

GERMANY'S GRIDLOCK AND DISILLUSIONMENT

You covered the economic woes of Germany but missed the underlying political causes of the slump ("Germany: Is reunification failing?" International Business, Nov. 15). In the years just prior to the fall of the Wall, many seasoned politicians in the Bundestag were replaced by younger representatives who had won their seats by serving their political parties and not the country. Their inflexibility and aversion to practical solutions has meant total gridlock on everything from illegal aliens to supporting the U.N. militarily. Decisions, when they came at all, were usually dealt out by the Supreme Court and not the legislature.

The *Mittelstand*, which is the backbone of German industry, depends heavily on the universities and *technische Hochschulen* for basic research. To finance its ego project of moving the capital from Bonn to Berlin, the government is now cutting back on funds for higher education, thus robbing German industry of its future. All of the industrialized world is hurting in the current recession. Japan, however, is cutting costs and will come out of the recession a lot leaner and meaner, but Germany is adrift.

Although most Germans want nothing to do with the far right, disillusionment is spreading, and the real danger could be that they will not vote at all in the upcoming federal elections. Even this eventuality does not seem to motivate the politicians, most of whom have a guaranteed job for life anyway.

Edward B. Robertson
Cologne

HIGH-TECH TELECOMMUTERS: AN ECOLOGIST'S DREAM

The quality of life that characterizes much of rural America serves as a principal incentive for the new breed of entrepreneur you write about ("The care and feeding of lone eagles," Information Processing, Nov. 15).

Our studies and work in rural communities in the Pacific Northwest and Greater Yellowstone regions found local leaders eager to embrace economic development strategies that veered sharply from past dependence on resource

CORRECTIONS & CLARIFICATIONS

"Has US Ecology cleaned up its act?" (Top of the News, Nov. 8) should not have described the planned transfer of land for a radioactive waste dump in California as a federal giveaway. The plan is for the state either to pay for the land or to forgive debts owed by the federal government. Also, US Ecology isn't headquartered in Louisville, Ky., but has its main offices in Rocklin, Calif.

"It's the money, stupid" (Government, Nov. 15) should have identified attorney Harold M. Ickes as lobbying on behalf of the Puerto Rican government, not corporations, to preserve corporate tax breaks that the Clinton Administration wanted to restrict.

extraction such as mining, logging, and grazing. While still important to local economies, such industries pale in comparison with the potential for growth that footloose industries offer.

Federal agencies responsible for public-land management in the West don't seem to get the picture yet, however. They continue to promote commodity extraction as a primary economic activity even in the face of mounting evidence that it harms instead of helps rural economies. And taxpayers get left holding the bag on those activities to the tune of more than \$1 billion annually in federal subsidies.

Those who argue we need more development of public lands miss the point: The "lone eagles" your article describes can fly anywhere they want, anytime, to find the most desirable work and home environment.

Jeffrey T. Olson, Director
Bolle Center for Ecosystem
Management
Wilderness Society
Washington

AFTER THE VERDICT, TOMEN STATES ITS CASE

I was sad to note your article about our legal dispute with Freeman Co., entitled "For Japan Inc., a Kentucky whipping" (The Corporation, Nov. 8). As we all know, business-related lawsuits are very complicated affairs. I was surprised to see this distorted and oversimplified account in a publication such as BUSINESS WEEK.

I wish to put these events into their proper context. Tomen America Inc. is a subsidiary of a Japanese multinational trading company that has been doing business in the U.S. since 1951. During

this time, we have enjoyed numerous successful joint ventures and partnerships with U.S. companies, large and small, in a variety of industries, from textiles to wind-power generation.

Throughout our relationship with Freeman, Tomen pursued the very best according to the high standards of business that have always guided us. We take strong issue with your unsubstantiated conclusion that "for many American trade negotiators and critics of Japan" the events of this case "seem to confirm a long-harbored suspicion: that many Japanese companies use legal dodges as claims of poor quality to win overseas deals they no longer like." Such companies exist, Tomen is not one of them. We point to decades of successful business relationships throughout the U.S. as proof.

Your article raises a much larger question, which ironically is addressed elsewhere in the same edition ("Should business be afraid of juries?" Legal Affairs). You note the widespread concern that jury trials are often used "to redistribute the wealth" from deep-pocketed defendants. This suggests that biased fundamental unfairness may have crept into our judicial system. If so, the nature of your coverage of our legal dispute may well exacerbate that situation.

Moreover, the article mentions how some foreign corporations are now being driven out of the U.S. market because of fear of litigation. Perhaps this is the real danger embedded in all these misunderstandings—that such fears will restrict business and growth across national boundaries, thereby harming participants in the global economy.

Hideo Hara
Chairman
Tomen America Inc.
New York

FIXING THE BROKEN B-SCHOOL MODEL

Appause is due for Harvard's meek joining others in seeking a chartered MBA education ("A case study in change at Harvard," Top of the News, Nov. 8). But to suggest that those schools, such as Tennessee included, are doing so with an improved model is to underestimate the case. What we do know is the educational model currently used is broken.

C. Warren Neel, Jr.
College of Business Administration
University of Tennessee
Knox

Letters to the Editor should be sent to Readers Forum, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax (212) 512-4721. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

THE BEST BUSINESS BOOKS OF THE YEAR

What a difference a few years make! In 1989 and 1990, BUSINESS WEEK's annual list of the year's best business books was dominated by juicy corporate tell-alls in the spirit of *Barbarians at the Gate* and *R's Poker*. But the more sober era we're living in is already being reflected in books, it seems.

In 1993, the business books embraced our reviewers—staff members from all parts of the magazine's international network of writers and editors—cover a wide range of categories: management theories, industry analyses, biographies, attempts to unravel scandals. But at the whole list, there's a new, more pragmatic and austere quality. A certain raucousness, cynicism, and glee—whether on the part of over-the-top dealmakers or the authors eagerly exposing them—has vanished.

In any era, it would be hard to turn a word such as "reengineering" into compelling reading. Still, it's the key management trend of the day and has inspired a spate of books—many of them tedious and jargon-laden. Not so *Reengineering the Corporation: A Manifesto for Business Revolution* (Harper Business), said our reviewer, Senior Writer A. Byrne. Written by the original of reengineering—former Massachusetts Institute of Technology computer science professor Michael Hammer and James Champy, chairman of CSC/Index in Cambridge, Mass.—*Reengineering* is succinct and well thought out. It outlines how radically rethinking and signing business processes—often with the assist from better information technology—can produce quantum improvements in speed, costs, and quality. The book provides the how-to information that managers need, as well as detailed case studies delivered in the words of managers who have led successful reengineering efforts at Hallmark, Sears, Taco Bell, Capital Holding, and Atlantic.

Another trend on managers' minds these days is teams. In fact, interest in the concept has been fueled by reengineering, which calls for setting up interdisciplinary teams to tackle tasks. Lead-business thinkers believe that by combining the skills and insights of sever-

al people, teams can outperform any individual.

The Wisdom of Teams: Creating the High-Performance Organization by Jon R. Katzenbach and Douglas K. Smith (Harvard Business School Press) is an engaging primer. To explore how to form teams, lead them, and get them to work, Katzenbach and Smith, consul-

tants at McKinsey & Co., interviewed hundreds of team members in dozens of companies, including Citibank, Eli Lilly, and Hewlett-Packard.

In addition to identifying the elements common to successful teams, the authors dissect failures. Said reviewer Byrne: "You'll be hard-pressed to find a better guide to forming what many consider an essential building block of the 'organization of the future.'"

The organization of the future was a preoccupation of more than one author in 1993. In *Collision: GM, Toyota, Volkswagen and the Race to Own the 21st Century* (Doubleday), automotive analyst Maryann Keller examines what the world's top carmakers must do to compete after the millennium.

Breaking with conventional, nationalistic thinking, Keller defines a new Global Big Three—GM, Toyota, and Volkswagen. Each, as it happens, is currently facing problems born of size and complexity. Each must remake itself to survive in the unfamiliar world of saturated markets and borderless competition. Each, Keller says, is standing at "a crossroads between the past and future where daring actions will be required."

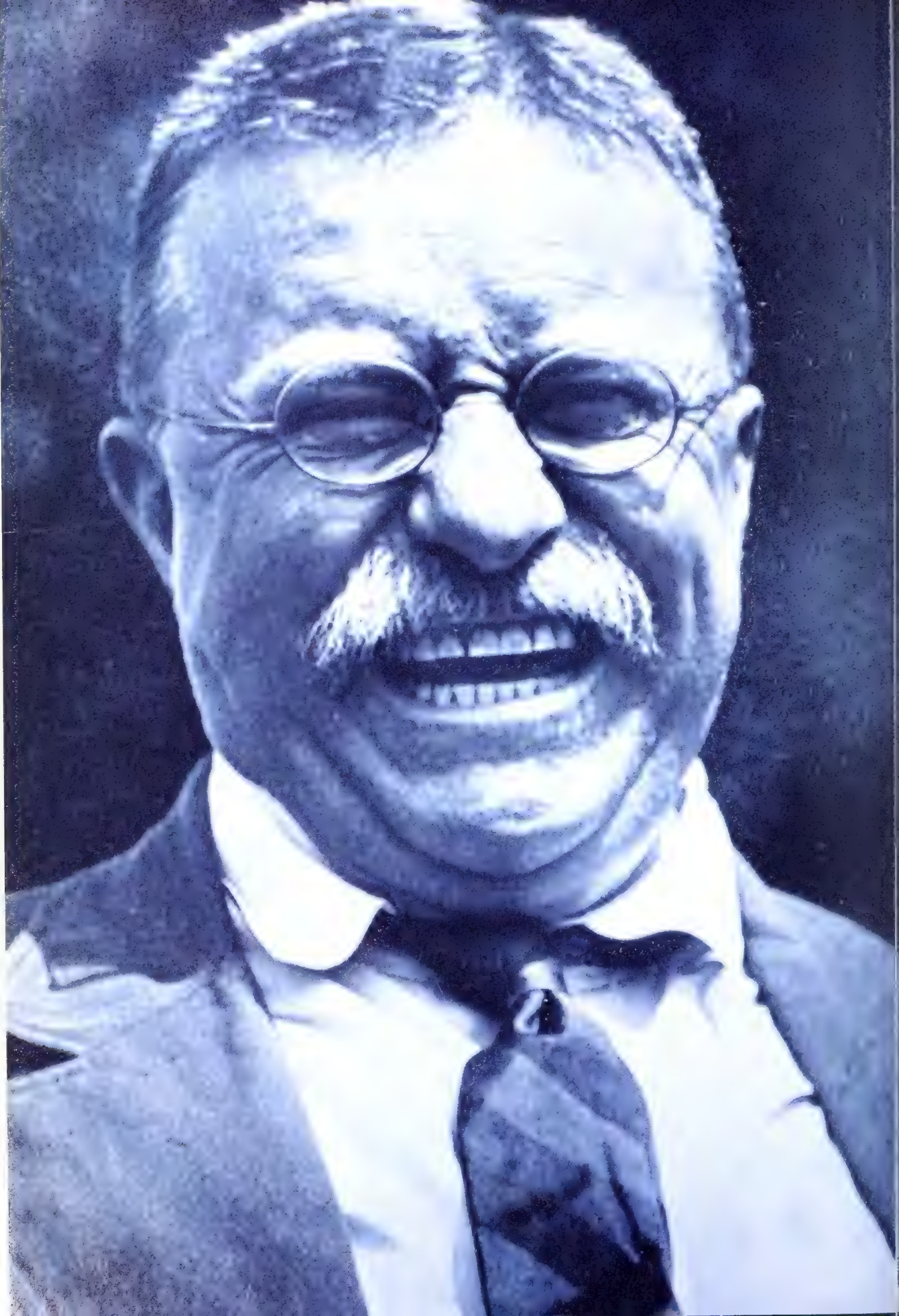
Much of *Collision* details how corporate culture and nationality have shaped each company's woes. Our reviewer, Bonn Correspondent Karen Lowry Miller, found the book's great strength to be Keller's portrayal of the players, rich in personal detail and delivered with "biting, even brutal, honesty."

Keller outlines four criteria to determine how ready her Global Big Three are to face the future. Intimate knowledge of GM (her previous book was *Rude Awakening: The Rise, Fall and Recovery of General Motors*) may have influenced her conclusion that GM is the one best poised to prosper. No matter. What counts, Miller concluded, "is that she is asking the right questions."

Another forward-looking industry analysis is *Computer Wars: How the West Can Win in a Post-IBM World* by Charles H. Ferguson and Charles R. Morris (Times Books). The work "presents a cogent, technically savvy history of IBM's business since the mid-1960s," in the words of Information Processing Editor John W. Verity. It then uses that history to analyze how U.S. computer companies should compete.

The authors argue that IBM's top executives lost their way—or, more significantly, their nerve—as early as the 1970s. They begin with the oft-told tale of how IBM "bet the company" on its System/360 mainframe family in the mid-1960s. They also tell the largely unknown story of how IBM began work on





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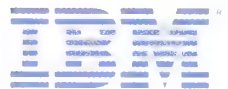
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an entirely new, more powerful design code-named Future System, or F/S, in the early 1970s and became so distracted that it missed a generation of development on the 360, giving a leg up to clonemakers. "F/S was IBM's own quiet Vietnam," the authors write. After F/S, "a status quo mind-set" took hold.

Ferguson and Morris use IBM's story to argue that establishing and controlling an architectural standard is the only way to compete in computers. U.S. companies, they suggest, should focus on technical vision and design, leaving mass production to the Japanese.

Even more compelling than the future of the computer industry is the question of how computers are reshaping our future. There's much talk about the electronic information superhighway these days, usually focusing on the ability to offer consumers video-on-demand and home-shopping services. But in *The Virtual Community: Homesteading on the Electronic Frontier* (Addison-Wesley), Howard Rheingold argues that many, many people would rather use this technology to connect with others than simply to avoid a trip to the video store.

Just published and yet to be reviewed in these pages, Rheingold's book depicts advanced communications technology as a means by which ordinary people can bypass the big media and have in-depth conversations with others around the globe. It traces the history of "the Net"—an amalgam of electronic bulletin boards, on-line information services, and computer conference sessions through which millions are already connecting to conduct business, spill their guts, flirt—you name it.

While telephones are essentially a one-to-one medium and television a few-to-many medium, says Rheingold, the Net marks the beginning of many-to-many communication. Former Staff Editor Evan I. Schwartz believes business leaders, policymakers, and concerned citizens will enjoy this readable exploration of life in cyberspace.

Few events in the history of the U.S. economy match the magnitude of the collapse of the savings and loan industry. Several books have probed the roots of the debacle. The best to appear in 1993 is *S&L Hell: The People and the Politics Behind the \$1 Trillion Savings and Loan Scandal* (Norton).

If there's a shortcoming to Kathleen Day's "admirable reporting effort," said Washington Correspondent Dean Foust, "it's her inclination to reconstruct the S&L disaster as a morality play," blaming losses on "avarice, fraud, and incompetence," while overlooking structural problems that made the disaster nearly inevitable. Still, admirably reported it is:

Day relies on her years spent covering thrifts for the *Washington Post* to provide a behind-the-scenes look at how Washington mishandled this orgy of speculation. Her portraits of legislators and regulators whose cozy ties to the S&Ls blinded them to the gathering clouds are devastating.

As tangled as the thrift mess is, it pales in comparison with the scandal involving the Bank of Commerce & Credit Inc. When BCCI was shut down in 1991, the reported losses were \$20 billion or more. The bank was linked to the CIA and a roster of terrorists and world-class sleazeballs. Like the S&L mess, BCCI has inspired numerous books, but the

In the sober '90s,
both the dealmakers
and authors lack
the old raucousness,
cynicism, and glee

story is so complicated as to be all but impossible to follow.

To the rescue came Jonathan Beaty and S.C. Gwynne, *Time* magazine reporters who helped break the story with *The Outlaw Bank: A Wild Ride Into the Secret Heart of BCCI* (Random House). They turned the tale into a good read by crafting their own reporting quest into a thriller. Their search led them into the world of spies, arms dealers, and drug traffickers where BCCI thrived. The book, said International Outlook Editor Stanley Reed, "evokes an aura of paranoia and seaminess."

Beaty and Gwynne do a marvelous job of tracing the origins of BCCI, the brainchild of a silver-tongued Pakistani banker, Agha Hasan Abedi. In 1972, Abedi persuaded Abu Dhabi's Sheikh Zayed to bankroll his plan for a Middle East-controlled multinational bank that would break the hold of Western financial institutions on the developing world.

When the 1973 embargo quadrupled oil prices, BCCI became the bank for Arab tycoons and for millions of Third World expatriates who flocked to the gulf to work. With the help of underlings who used bribery, money launder-

ing, and even procuring to win over clients, Abedi expanded into some 70 countries. BCCI's unscrupulousness made the bank of choice for arms dealers, drug trade, and spy agencies.

Even after the bank became illiquid in the early 1980s, Abedi kept his scheme going for some time—with the bank's complex structure obscuring the scams. *The Outlaw Bank* leaves the impression that with the offshore bank centers Abedi used so effectively in business, another BCCI could happen.

Financial history buffs will savor Chernow's *The Warburgs: The 20th-Century Odyssey of a Remarkable Jewish Family* (Random House). Chernow, author of the acclaimed *The House of Morgan*, has "struck literary gold again with this lovingly told saga of the man banking family, said reviewer F.

The story is both epic and tragic: see the Warburgs, whose origins Chernow traces to a 16th-century pawnbroker, rise to wealth and influence under Bismarck and Kaiser Wilhelm II, despite their success and patriotism they were always suspect because they were Jews. Establishment connections couldn't spare the family near-ruin under the Nazis.

Many colorful Warburgs emerge through the book, but at its heart are five brothers who presided over the family bank, M.M. Warburg & Co., during its glory years and its struggle with the Nazis. Among those who emigrated to the U.S., Paul and Felix became partners in Kuhn Loeb, and Paul emerged as an architect of what became the Federal Reserve System. Chernow brings his tale full circle with the family's reformation of the rejuvenated M.M. Warburg Bank in Hamburg.

An ambitious and excellent biography of a contemporary business figure is William Shawcross' life of Rupert Murdoch. Media Editor Mark Landler termed *Murdoch* (Simon & Schuster) a chronicle of one man's fiery arc through the media firmament."

Shawcross follows Murdoch on his dizzying journey from Adelaide, Australia, around the globe and shows how he charmed, connived, and bullied his way to ownership of many of the world's most media properties. Landler was disappointed that even after Shawcross' lengthy dissection, Murdoch is still enigmatic and contradictory. But Landler decided the paucity of personal insight was itself revealing, concluding that "Murdoch remains an inscrutable figure—a apostle of global communications who is a master of not telling the world what he really thinks."

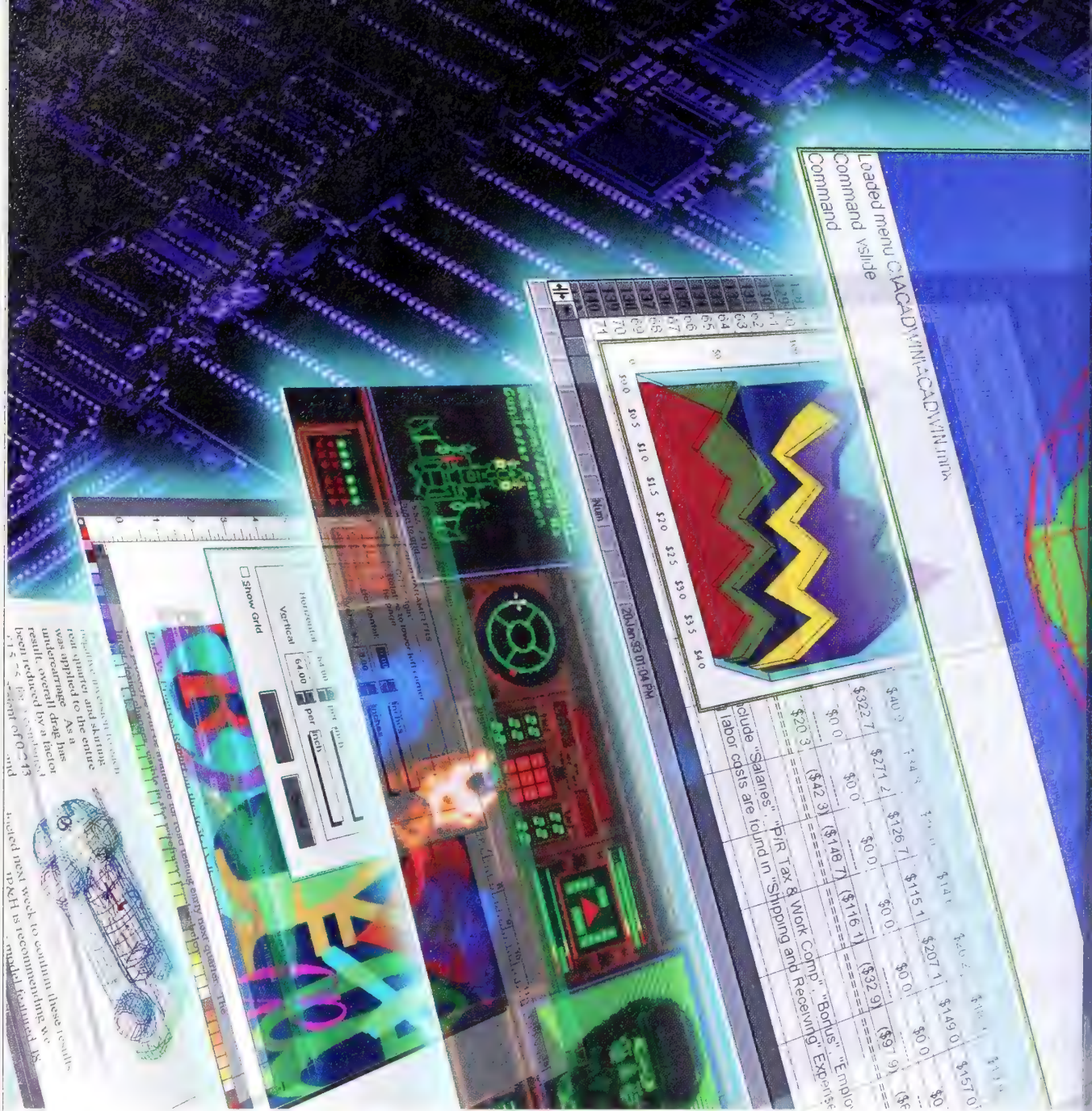
BY DENISE DEMONG
Demong edits the Books section

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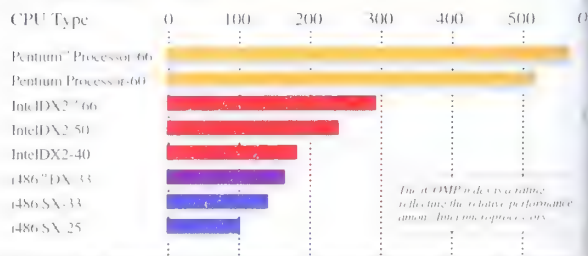
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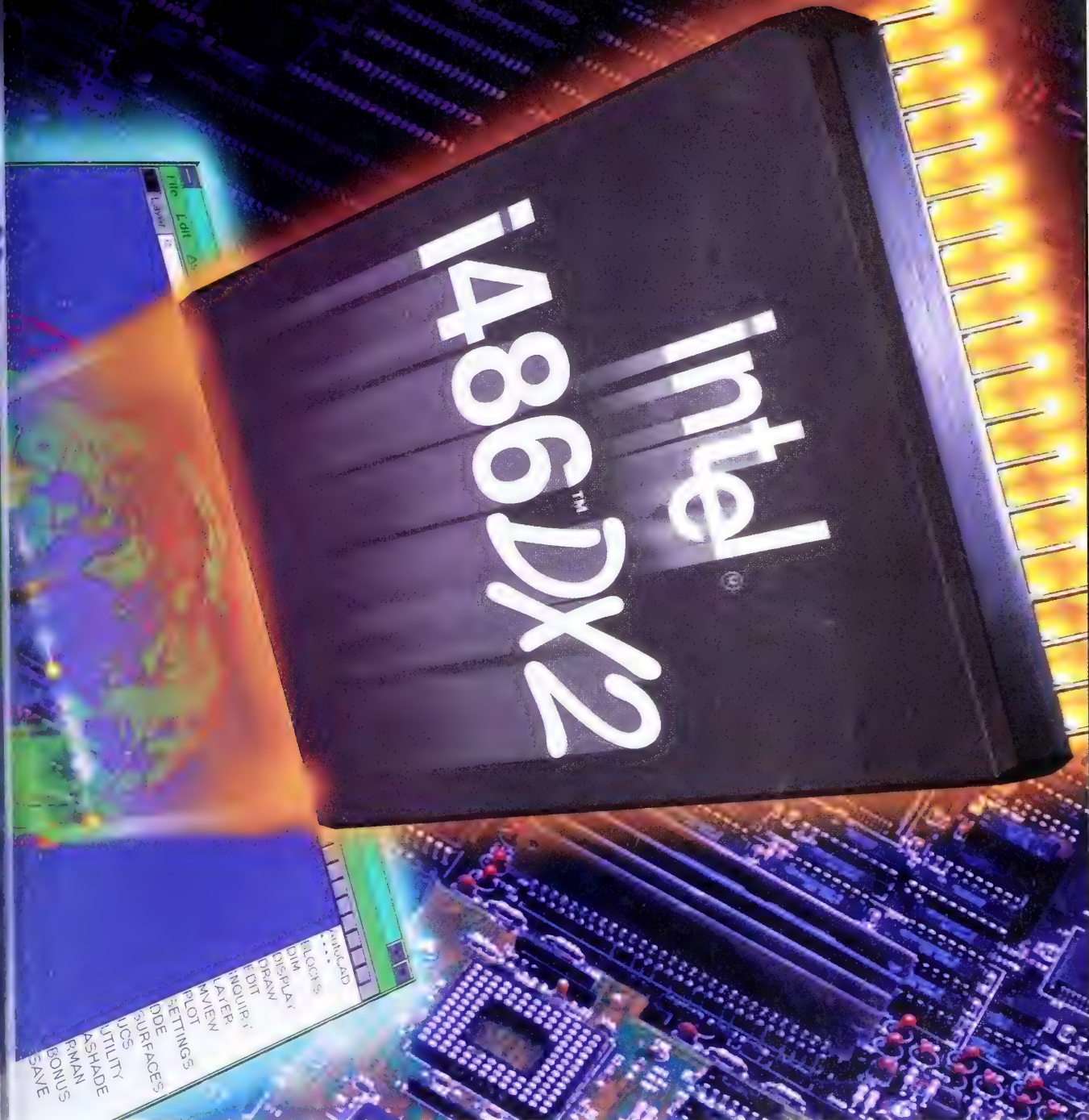
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THE PACIFIC RIM: WHY CLINTON IS AT SEA

BY ROBERT KUTTNER



America's recent moves suggest a muddle—ideological and strategic. Like NAFTA, the proposed free-trade bloc with Asian countries looks like the regional fortresses the U.S. always deplores

While President Clinton was in Seattle hosting the first meeting of a chimerical Pacific trade bloc, America's most distinguished Japanologists were holding their own meeting in Santa Fe, N.M., on "Japan as a Techno-Economic Superpower." Sponsored by Los Alamos National Laboratory, the conference concluded that, despite Japan's current recession and the splintering of the Liberal Democratic Party, the country's fundamental nature as a state-led economy—and hence its chronic trade surplus—was essentially unchanged.

Clinton grandly proposes that member nations of an obscure grouping called Asia-Pacific Economic Cooperation (APEC) should become a free-trade zone. But, as the Santa Fe meeting made clear, none of these nations views U.S.-style laissez-faire as an economic model. Instead, like Japan, the most dynamic Asian nations use government-industry links, subsidized capital, large conglomerates, and resistance to imports.

Reconciling the structural mercantilism of the Asian development model with the general openness of the U.S. will not be accomplished by generic appeals to free trade. Measured against the real trade issues, Clinton's Pacific Rim strategy is naive. Despite the hoopla, the Seattle conference made no progress on such concrete and knotty issues as getting Japan to open up, persuading China to liberalize either its markets or its human-rights policies, or bringing practical symmetry to trading relationships. At Seattle, Asian diplomats politely threw cold water on any trans-Pacific trade bloc.

The one concrete step taken at Seattle was a joint pledge to cut tariffs. But Japanese tariffs are already low and roughly proportional to our own. The serious barriers are, of course, nontariff ones. Ignorance of how Japan really works leads to repeated policy blunders. Amazingly, the Clinton Administration still has not a single Japan specialist in a senior policy position.

VAGUE PIETIES. Unlike Mexico, a country heavily dependent on the U.S. and with a gross domestic product less than 5% of our own, Japan is not about to change its economic system to get greater access to the U.S. market. Japan already has all the access it needs. The U.S. will make progress on the trade imbalance only when it makes access to our market conditional on reciprocal access abroad, not by offering vague pieties about freer trade.

Taken together, the Administration's recent trade initiatives suggest ideological and strategic muddle. The North American Free Trade Agreement was ultimately sold as a weird

hybrid of free trade and mercantilism. Iacocca's ads for the NAFTA-support coalition crowed that the deal would create a North American trade bloc, with Europe and Japan "on the outside looking in." How, exactly, this advance global free trade? To Europe, NAFTA and the Pacific initiative look much like the regional fortresses that the U.S. is always deploring.

The long-delayed Uruguay Round of General Agreement on Tariffs & Trade talks may be the biggest debacle of all. American sponsorship of GATT typically puts pressure on negotiators to give more than they get in order to win foreign support, and this round is no exception. On issues that really matter to U.S. exporters, such as limits on foreign subsidies and intellectual-property protection, negotiators have already caved in.

WEARING BLINDERS. Now, with the December deadline fast approaching, the U.S. is under pressure to relinquish one of the few levers it has. Section 301 of the trade act allows the U.S. to take action against restrictive foreign-trade practices and has had modest success in prying open Japan's semiconductor market and Brazil's computer market. A draft GATT accord would sacrifice protection of the U.S. textile and apparel industries while creating offsetting market-openings in textiles for exporting nations. In recent meetings aimed at a GATT breakthrough, U.S. Trade Representative Mickey Kantor proposed—what else?—more tariff cuts.

Our diplomatic muddle is the result of consistent ideological blinders. Orthodox economic theorists insist laissez-faire is the best road to economic growth. Confronted with the success of non-laissez-faire nations such as Japan and South Korea, they conclude that the resulting trade imbalance must reflect a U.S. failure, such as the budget deficit. If we're working hard enough. And if laissez-faire is the optimum, the only remedy is for America to keep setting a good example by not fighting back. Thus do our trading partners keep sending U.S. industry to the cleaners, with the complicity of our economic theorists.

Lately, groping for some insulation, Presidents have sponsored "free-trade blocs," surely a contradiction in terms—thereby creating confusion, contradicting our professed principles, and ducking hard questions of national economic interest. Is the goal more symmetrical trade? Universal free trade? Preferential trade? At Seattle, Secretary of State Warren M. Christopher kept describing NAFTA, APEC, and GATT as a "triple play." Triple play, sadly, could be on us.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE



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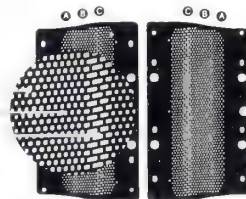
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BY GENE KORETZ

DON'T BET THE BANK ON A NEW-YEAR SURGE IN UNEMPLOYMENT

The Labor Dept. has warned that the jobless rate is likely to jump by half a percentage point in January. That's because government interviewers conducting the monthly household employment survey will start using a revised questionnaire that is more sensitive to the job status of women, and many women who were falsely presumed to be homemakers and out of the labor force will now be counted as unemployed.

Economist Charles Lieberman of Chemical Securities Inc. thinks the rise in the jobless rate won't occur, however. He notes that after the government began training its interviewers in the new question format several months ago, the jobless rate for women rose while the rate for men continued to decline. "There's a good chance," he says, "that interviewers unconsciously changed their perceptions after they learned that their current techniques are faulty. If that's the case, at least part of January's expected rise in unemployment has already occurred." Labor Dept. officials, however, pooh-pooh this possibility.

WANT MORE SUCCESS? JUST GET BETTER LOOKING

Most people would probably agree that good looks pay off in the job market. Studies have found that fat people earn less than slimmer workers, for example, and that taller men find it easier to climb the executive ladder. But what about people who are regarded as attractive or beautiful compared with those with average looks and those deemed homely?

In a new study, economists Daniel S. Hamermesh of the University of Texas and Jeff E. Biddle of Michigan State University seek to answer that question by analyzing data from several household surveys taken in the U.S. and Canada in the 1970s and early 1980s. Along with information on respondents' job histories and earnings, the surveys contain interviewers' opinions of their physical appearance, with ratings ranging from very attractive to ugly.

The results of the analysis are revealing. In general, it found that very attractive men and women earn about 5% more than their average-looking

counterparts, after adjusting for other factors that might affect earnings, such as education and marital status. But whereas homely women earned about 5% less than women with average looks, the wage differential for homely men was almost twice as large—about 9%. These results held up even when the data were adjusted for the possible effects of height and weight.

The researchers rejected the theory that attractive people earn more because they get favorable attention in their early years and thus develop the self-esteem and confidence that enhances productivity. Looking only at people with high self-esteem, they found that those with good looks still earned more. The bottom line, says Hamermesh, "is that the job market clearly tends to favor beautiful people and to penalize those unlucky enough to be born plain."

LIGHT-TRUCK SALES ARE ADDING ZIP TO THE UPTURN...

What's good for Detroit's auto makers is usually good for the economy. With motor vehicle sales surging, U.S. auto makers have scheduled a 20% rise in car and light-truck output in the fourth quarter over third-quarter levels. As a result, says economist Diane Swonk of First National Bank of Chicago, motor vehicle production will add at least 1.75 percentage points to this quarter's growth rate.

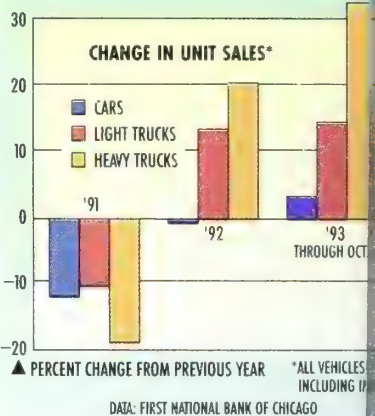
The bulk of that boost will come from increased output of trucks—mainly light trucks such as minivans, pickups, and sport utility vehicles, but also the heavy trucks used by industry. "To a large extent," observes Swonk, "the automotive upturn that began last year has been driven by rising expenditures on trucks, rather than cars."

Statistics underscore the development. Sales of passenger cars fell slightly last year and are up only 3.6% so far in 1993. By contrast, light-truck sales have been posting double-digit gains and are currently grabbing nearly 38% of the total car and light-truck market, compared with just 28.7% in 1986. And sales of heavy trucks—mainly the big diesel-powered rigs that haul monster trailers—are up some 60% in the past two years and show no sign of slowing.

This bodes well for the expansion. Heavy-truck sales only run around 150,000 units, but the rigs can cost as much as \$100,000, and unlike such capital goods as computers, they are almost entirely a U.S. product. Their impact on the economy is small but significant.

It's the 5 million-plus-unit sales of light trucks, however, that pack the biggest economic wallop. Like heavy trucks, light trucks are primarily a product, and the Big Three auto makers have virtually captured the gro-

THE AUTOMOTIVE MARKET KEEPS ON TRUCKIN'



market, boosting their share of profits from 80% in as recently as 1986 to 90% in the past six months. Indeed, profits on light trucks running at \$8,000 to \$6,000, it's no exaggeration to say that the Big Three's rising fortunes are primarily a light-truck phenomenon.

At least for the foreseeable future, that's unlikely to change. Aided by a 25% tariff, the strong yen, and their comparative advantages of design excellence and product variety, U.S. auto makers are determined to hang on to this market. General Motors Corp., for example, recently declined to supply Toyota Motor Corp. with engines for a new pickup truck to be built in California.

... AND THEIR FUTURE LOOKS JUST AS BRIGHT

Is there a chance the shift toward light trucks will be reversed in coming years? Barring a sharp rise in real line prices, which they deem unlikely, economists at DRI/McGraw-Hill think so. They note that demographic trends strongly support the shift toward family-oriented vehicles such as minivans, sport utilities, and large sedans.

The ranks of 35- to 54-year-olds will grow by 13 million between 1990 and 2000, while the 25- to 35-year-olds will decline by 6 million. Consumers aged 35 to 44 are twice as likely to buy a larger vehicle as those 25 to 34, and those between 45 and 54 are six times as likely.



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CONSUMERS ARE ROCKING, AND FACTORIES ARE ROLLING

From all early-bird signals, consumers are making the holidays bright for the U.S. economy. They are in better spirits, less worried about the future, and spending freely on items big and small. No one could be more pleased by all this than U.S. manufacturers. The factory sector has spent most of 1993 in the doldrums, depressed by defense cuts, weaker exports, and sagging orders generally. Now, thanks to consumers, manufacturers are looking at better times that could last well into 1994—at least.

ORDERS LIFT THE PURCHASERS' INDEX



It's not that consumers suddenly woke up in time to play Santa. Consumer outlays rose at an annual rate of 3.4% in the second quarter, 4.4% in the third, and they are on track to match that pace this quarter. It will be the best three-quarter performance in five years.

This is not profligate spending, mind you. Excluding flood- and drought-depressed farm in-

come, consumer outlays are growing apace with income, setting better job growth. And don't forget low interest rates, extra cash from refinancing, and quiescent inflation—including OPEC's gift of cheaper fuel (page 38). Add in spending growth looks not only healthy but sustainable as well.

INVENTORY Manufacturers are reaping the benefits. The flow of new orders in recent months has gone from a trickle to a gush. Factory orders for durable goods such as cars, furniture, and machinery rose 2% in October, the third consecutive increase, to an all-time high.

Weak demand has caught factories with their inventories, especially auto and truck makers. Empty warehouses suggest stronger output well into the new year, as makers rebuild their inventories. And with the factory week already historically long, more hiring may be in the offing as well.

The manufacturing zest continued in November, according to the National Association of Purchasing Management. The NAPM's composite index of industrial activity rose to 55.7% from 53.8% in October, fueled by a 11th consecutive robust gain in new orders (chart). Earlier in January, the orders index was the highest in 14 years. In addition, the purchasers said that production was the highest since January, and their employ-

ment index increased for the third consecutive month.

Because of the improving outlook for consumers and the ongoing rush of capital spending on equipment by businesses, the factory sector's near-term prospects are the best in years. Of course, manufacturers will continue to bear the brunt of military cuts, weaker foreign demand, and an ever-rising tide of imports.

The inflow of foreign goods showed no sign of ebbing in the third quarter. The Commerce Dept. reported that imports rose at an annual rate of 6.1%, rather than the 1.9% pace originally reported. That upshift was the chief reason for the slight downward revision in third-quarter real gross domestic product from a gain of 2.8% to 2.7%.

DETROIT IS RUNNING ON HIGH OCTANE

However, factories are leading a fourth-quarter acceleration in output that appears to be lifting real GDP growth in excess of 4%. Manufacturers are riding into the new year on the crest of a simultaneous upturn in housing and autos. Those two industries, like no others, still have broad secondary impacts on a variety of U.S. markets and producers.

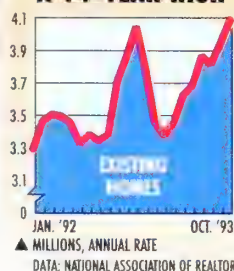
Sales of domestically made cars and light trucks picked up sharply in October, to an annual rate of 12.5 million from 11.2 million in September, and car buyers were still out in force last month. In mid-November, cars and light trucks sold at an annual rate of 12.5 million, after posting a 12.4 million rate early in the month.

That healthy pace has reduced inventories to the point where Detroit may have to add to its already hefty production plans for the first quarter of 1994. Car production is contributing strongly to fourth-quarter industrial production and economic growth generally. Carmakers' output schedules already imply another, although smaller, boost next quarter, led by a record production level for light trucks, which now account for 46% of domestic-vehicle output.

Manufacturers are also benefiting from the rebound in housing. Low mortgage rates propelled a 3.6% rise in sales of existing single-family homes in October, the sixth increase in the past seven months, reported the National Association of Realtors. Sales hit an annual rate of 4.08 million, the highest level in 14 years (chart).

Strong housing demand is generating a rash of new con-

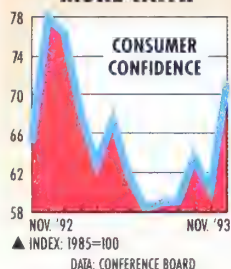
HOME SALES HIT A 14-YEAR HIGH



Business Outlook

struction that is giving economic growth a big boost this quarter. Construction spending rose a hefty 2.5% in October, and the government revised the September increase from 0.8% to 1.5%. The October gain was the sharpest in a year and a half. The advance sets outlays on a high plane starting the fourth quarter, assuring a sizable contribution to growth in real GDP.

CONSUMERS VOICE MORE FAITH



As it always does, the housing rebound is fueling demand for a broad range of consumer items, especially big-ticket household goods. In fact, the way holiday sales are shaping up, retailers may well see the 1993 gains match the strong performance of yearend 1992.

The *Johnson Redbook Report* shows that sales at the nation's department and discount stores

rose a seasonally adjusted 0.7% in November from October. That puts last month's sales nearly 9% ahead of receipts in November, 1992. In addition, stores indicated strong business in the days after Thanksgiving.

THE GAS TAX ISN'T MAKING A DENT

Consumers may well be waking up to the reality that things aren't as bad as they had thought. After posting pessimistic readings in the spring and summer, consumer confidence surged in November (chart). The Conference Board's index jumped 11 points, to 71.2, fueled by consumers' better assessment of their present situations and brighter expectations for the future.

The gain was one of the largest in the survey's 25-year history. And unlike other jumps in recent years, this one was unrelated to one-time events, such as the Presidential election or the gulf war victory. It may simply be that consumers are finally feeling the recovery.

In particular, households said current conditions last

month, while still not great, were nevertheless the best nearly three years. Moreover, that component of confidence scored the biggest monthly increase in five years.

A key survey response was households' opinion of employment situation. The proportion of people reporting that jobs are "plentiful" rose, while the share of those feeling that jobs are "hard to get" dropped to a three-year low. That's a good sign that the job market is improving, which is a major reason consumers are increasingly willing to plunk down the big bucks for cars and homes they were reluctant to spend before.

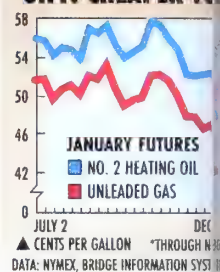
Based on a survey taken earlier this year, which showed that one in three consumers had postponed a major purchase because of uncertainty over the economy, Conference Board economist Fabian Linden believes that further increases in confidence will unleash even more of this pent-up demand.

Consumers should also benefit from OPEC's failure to cut oil output. The rule of thumb is that a \$1-per-barrel drop in oil prices, if sustained for a year, cuts 0.2 to 0.3 percentage points off the annual rate of consumer price inflation. Since October, the price of crude oil is down more than \$1 per barrel.

Already, the January contract prices for heating oil and unleaded gas have plunged to five-year lows in the futures market (chart). The decline more than offsets the impact of the 4.3¢-per-gallon increase in the federal gasoline tax that took effect on Oct. 1.

More buying power, generally, is only one of the positive fundamentals underlying the near-term outlook for consumer spending. That's why manufacturers are likely to remain in good spirits even after all the New Year parties are over.

OPEC'S CHRISTMAS GIFT: CHEAPER FUEL



THE WEEK AHEAD

INSTALLMENT CREDIT

Tuesday, Dec. 7

The surge in retail sales in October suggests that consumers probably added \$5 billion in credit during that month. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. The October gain would be the fourth monthly increase of \$5 billion or more, including a \$6.7 billion jump in credit in September. Revolving debt, which includes credit cards, is leading the recent runup in borrowing, but auto financing is also on the rise, thanks to increased car and truck buying. Consumers are borrowing more because household budgets can handle it. The ratio of installment debt

to disposable income has stayed at about 16% for more than a year. In addition, because consumers didn't borrow much in 1992, their monthly debt payments have been greatly reduced.

PRODUCER PRICE INDEX

Thursday, Dec. 9, 8:30 a.m.

Producer prices of finished goods probably rose just 0.1% in November, after falling 0.2% in October. A retreat in gasoline prices, after a 6.3% surge in October, likely offset small increases in other goods. In addition, new-car prices, which had fallen 3.9% in October, probably rebounded a bit. Still, inflation at the producer level is on track to show no change for 1993, after rising just 1.6% in 1992 and falling 0.1% in 1991.

CONSUMER PRICE INDEX

Friday, Dec. 10, 8:30 a.m.

The MMS consensus is that consumer prices rose a modest 0.2% in November. Prices increased 0.4% in October but that was caused mainly by a 3¢-per-gallon gas-tax hike. If the regular price drops in gasoline and heating oil stick through most of December, the total consumer price index may post a decline this month. That means consumer prices for 1993 could rise at the lowest rate in seven years. Core consumer prices, which exclude food and energy, probably also rose 0.2% last month, advancing 0.3% in October. The consumer inflation rate will likely end the year at 3%—the lowest pace in two decades.

MCI RATED NO. 1 IN CUSTOMER SERVICE. TWICE.

"No. 1 in Customer Service."

-Data Communications Magazine, August 1993

"No. 1 in Customer Satisfaction."

-Network World/TeleChoice, Inc., July 1993

For the third year running, the readers of *Data Communications Magazine* have declared MCI number one in customer service*, by praising what they call our "responsiveness and...eagerness to help." A sentiment also shared by a *Network World/TeleChoice* user survey, which found, "MCI achieved the highest end user satisfaction scores" in service support of any major long distance carrier.** To find out why, give us a call.

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DECEMBER 13, 1993



FRIENDLY FIRE AT THE FED

SUDDENLY, GREENSPAN IS DODGING BULLETS

**WILL GREENSPAN
A PUSHOVER FOR
THE CLINTONITES?**

Soon after President Clinton took office, the White House began a torrid—and highly public—courtship of Federal Reserve Board Chairman Alan Greenspan. Clinton aides wooed the Fed chief in hopes he would bless their plan to cut the federal budget deficit. Greenspan, perhaps lobbying for reappointment in 1996, responded, calling the plan “credible,” and even served as an Administration prop when he sat next to First Lady Hillary Rodham Clinton at the State of the Union Address in February. Since then, White House and Fed economic policies have been in synch, creating an unusually long honeymoon.

Now it looks as if the relationship has hit its first rough patch. Strangely enough, the trouble isn't over interest rates, the usual source of friction between the White House and the Fed. In fact, despite a building economic expansion, Greenspan has kept interest rates low. Instead, the central bank finds itself on the defensive over its role as a key banking regulator.

Some of the wiliest politicians in the Administration have decided to go after the Fed. Attorney General Janet Reno, the star of the Clinton Cabinet, has taken the Fed to task for failing to aid her high-priority campaign to ferret out

lending discrimination. And Treasury Secretary Lloyd M. Bentsen on Nov. 2 proposed streamlining banking regulation, which would strip the Fed of much of its oversight of banks. Bentsen's plan, which requires congressional approval, could in turn provide House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), a Texas populist and a long-time Fed critic, with a platform for Federal Reserve reforms aimed at lifting the veil from the central bank's secretive deliberations.

These attacks on what has been an invincible institution will sorely test Greenspan's political savvy. Under Federal Reserve A. Volcker, the Fed seemed invulnerable

But Greenspan, a number-cruncher
rade, may lack Volcker's political
ess and passion for preserving the
s regulatory role. "It appears the
on Administration has gotten a read
reenspan and realized he's an easy
to push around," says Bert Ely, an

andria (Va.) bank-
consultant. "People
esting the Fed and
ng it doesn't stand
ry well."

no, for instance,
diplomatic enough
r appearance at a
4 Senate Banking
nittee hearing. She
ded that the Jus-
Dept. may be partly
ult for the govern-
's poor enforce-

of laws to prevent lending bias.
she made it clear that the Fed, the
ral Deposit Insurance Corp., and
ffice of Thrift Supervision had not
d Justice's probe of bank-lending
mination. And she singled out the
important of the three uncoopera-
regulators, declaring that the fight
st bias cannot be won "without the
participation and assistance of the
al Reserve Board."

MOVE. Consider a merger the Fed
ved in March between bank hold-
companies based in Memphis and
Rock. Only four months earlier,
omptroller of the Currency, whose

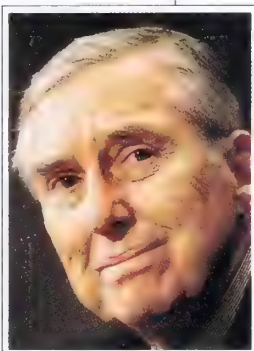
ts Reno praised,
spurned a similar
er between the
nies' bank subsid-
because of the
Rock bank's poor
d on low-income
according to Mi-
bank consultant
eth H. Thomas.

the Nov. 4 hear-
ed Governor Law-
B. Lindsey de-
d the central

s record, saying the Fed is "work-
urefully" with Justice. But outside-
believe only intense Administration
are forcing the Fed to focus on
sue. On Nov. 15, for instance, the
lenied Shawmut National Corp.'s
st to buy a smaller New Hamp-
bank and based its decision on
nut's spotty record for lending to
or—a move activists, bankers, and
senior Treasury officials saw as a
al sop. "It was a throwaway deci-
an attempt by Greenspan and the
governors to deflect criticism,"
Deepak Bhargava, legislative direc-
r the community group ACORN.

TURNING UP THE HEAT

*The White House has courted Fed Chief
Alan Greenspan, but other Democrats are
taking him on:*

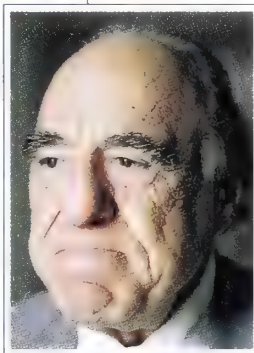


LLOYD BENTSEN

The Treasury Secretary has
proposed legislation that
would consolidate most bank-
ing regulation into an indepen-
dent "superagency" called
the Federal Banking Commis-
sion, which would restrict the
Fed's power to regulate
banks.

HENRY B. GONZALEZ

The House Banking Commit-
tee chairman argues that the
Fed should be more account-
able. He blasts the Fed for its
secrecy and its mostly white
and male makeup. Treasury's
legislation would give Gonza-
lez a vehicle for some of his
reforms.



JANET RENO

The Attorney General has
launched a probe of the bank-
ing industry for abuses of fair-
lending laws. She also has
complained to Congress that
the Fed hasn't cooperated
fully with her campaign to pe-
nalize banks with poor minor-
ity lending records.



For Greenspan, the fight over bank
regulatory authority may be far more
important. By creating a new Federal
Banking Commission, Bentsen hopes to
eliminate duplicate examinations and cut
the costs to banks of regulation. The
Fed has long said, though, that it needs
to regulate banks to gather essential in-
formation needed to maintain control
over the nation's monetary policy and
financial payment system. The legisla-
tion accommodates those concerns. And
Administration officials suggest that the
Fed is using monetary arguments to dis-
guise its real motive: preserving its turf.

Other regulators likely will present a
united front in support of the Treasury
plan. That's partly because in behind-
the-scenes regulatory powwows, some
agencies are chafing at the Fed's domi-
neering approach. They gripe that Fed
officials run roughshod over their col-
leagues in coordinating banking policy.

"HOSTILE MOVE." Many banks, however,
are likely to line up on Greenspan's side.
Privately many concede they like having
several agencies to play off against one
another. Chicago-based Continental
Bank Corp., for instance, which current-
ly is federally chartered and reports to
the Comptroller, recently moved to be-
come a state-chartered bank regulated
by the Fed. The bank says the switch
would save \$1 million a year in examina-
tion fees. But one regulatory source be-
lieves the bank wants out partly because
the Comptroller last year nixed a move
to shift capital to a new
financial derivatives
unit.

Regulatory streamlin-
ing may not be the only
feature Greenspan will
resist. Banking experts
expect Gonzalez to tack
on to the bill require-
ments that the Fed re-
lease detailed informa-
tion about its monetary-
policy deliberations and
disclose it sooner. Cur-

rently, the central bank releases cryptic
summaries of these meetings only after
another session has taken place—a delay
of more than a month. Greenspan is
bending slightly on this issue, too. He
recently agreed to release edited tran-
scripts of Fed meetings held more than
five years ago. Gonzalez termed that
"wholly inadequate."

The Administration contends that it
has strong bipartisan backing for its
proposal in both the House and Senate.
But Greenspan may feel compelled to
fight such an affront to the Fed's au-
thority. Some Administration officials
worry that the White House assault on
the Fed will poison their relationship.
The Treasury proposal "is a very hostile
move," frets one Clinton official. "This
will be a big fight neither side needs."

The reason? If the recovery keeps on
picking up steam, the Fed may be more
inclined to raise short-term interest
rates, which it hasn't changed in more
than a year. Administration officials
would prefer that Greenspan not feel
spurned. But the honeymoon between
the White House and the Fed couldn't
have lasted forever.

*By Dean Foust and Owen Ullmann in
Washington*

WANTED: A MODERATE ACADEMIC WHO 'LOOKS LIKE AMERICA'

Bill Clinton is about to get a crack at dismantling one of the major economic legacies of the Reagan-Bush era: The conservative-leaning Federal Reserve Board. All seven of the Fed's current members are Republican appointees. That will change on Jan. 31, when Governor Wayne D. Angell's term expires. Angell is the Fed's most hawkish inflation fighter, and his replacement by a more moderate Democrat could shift the central bank's center of gravity away from aggressive inflation-fighting.

Clinton's top economic advisers have recommended four candidates to replace Angell—all Establishment Democratic economists, **BUSINESS WEEK** has learned. Senior Administration sources say Alice M. Rivlin, 62, deputy director of the Office of Management & Budget, is the clear top choice—though friends say she may refuse the job. The other prospects: Princeton University international specialist Peter B. Kenen, 61; George L. Perry, 59, of the Brookings Institution; and Van Doorn Ooms, 59, a longtime congressional aide who is now vice-president of the

Committee for Economic Development (table). The problem: Aside from Rivlin, all the candidates are white males. If she turns down the job, Clinton or personnel chief Bruce R. Lindsey may order a broader search to come up with another female or minority candidate for the all-white, almost-all-male board.

What kind of governor has the White House been looking for? None of those on the short list has a background in banking, finance, or business. Instead, the Administration seems to favor strong academic credentials that it hopes will give a new governor plenty of clout with other board members. "We're looking for somebody who would maintain the Fed's traditional role of guarding the value of the currency, but in a reason-

able fashion," says an official involved in the selection. "We don't want an extremist in either direction—pro-growth or anti-inflation."

A middle-of-the-road candidate should minimize problems on Wall Street, where relaxation of anti-inflation vigilance could rattle the bond markets. Nor would such a person stir controversy on Capitol Hill, where many long for an easier-money policy. The economists on the list are "very mainstream, noncontroversial, and slightly to the left of center," says Da-

problem for the White House. The Fed's record on minority issues is under broad attack (page 34). Indeed, House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) on Dec. 15 assailed the Fed system nationwide as being a largely white male bastion. has a point. The current Fed board consists of six white men and one woman, and the presidents of all regional Fed banks are white males. Clinton, who has promised a government "that looks like America," could feel pressured to find a woman or

minority group member.

But the effort to bring more diversity to the Fed has already frustrated the Clintonites. Other women considered—Council of Economic Advisors Laura D'Andrea Tyson and Assistant Treasury Secretary Alicia H. Munnell—indicated they would rather stay in the Administration post. The search committee also found little enthusiasm from several African Americans sounded out, including Franklin D. Raines, vice-chairman of the Federal National Mortgage Assn.; William H. Gray III, former House Budget Committee Chairman; and current president



THE FED: WHITE MALE BASTION

THE FED'S SHORT LIST

ALICE RIVLIN The top choice. The deputy director of the Office of Management & Budget is respected as a solid economist with moderate views. The question: Will she accept?

PETER KENEN The runner-up. With a first-rate mind and mainstream views, this Princeton economist knows international monetary policy.

GEORGE PERRY Longer odds. This Brookings Institution senior fellow has been around since 1961, when he worked for JFK. But he has been passed over for the Fed before.

VAN DOORN OOMS Also longer odds. Another safe Democratic economist who heads research for the business-funded Committee for Economic Development.

DATA: BUSINESS WEEK

vid M. Jones of Aubrey G. Lanston & Co., a government securities dealer. "Faced with a close call over interest rates, I think all of them would come down on the side of growth over inflation, and with Angell gone, that could make a difference."

FRUSTRATION. All four have a good shot at confirmation. They're well-liked on the Hill: "We see no problems for any of them," says a source on the Senate Banking Committee, which handles confirmation of Fed governors.

The big question now: Will front-runner Rivlin take the position? Friends say she's unhappy in her job at OMB, where she feels she lacks clear authority and influence. But they think that she would be bored at the Fed.

A Rivlin withdrawal would be a

problem for the White House. The Fed's record on minority issues is under broad attack (page 34). Indeed, House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) on Dec. 15 assailed the Fed system nationwide as being a largely white male bastion. has a point. The current Fed board consists of six white men and one woman, and the presidents of all regional Fed banks are white males. Clinton, who has promised a government "that looks like America," could feel pressured to find a woman or

of the United Negro College Fund; Ford Foundation President Franklin D. Thomas. For Clinton, the political balance act involved in choosing a candidate is only a tune-up for a far more crucial decision he will face in March, 1993, when Chairman Alan Greenspan's second four-year term expires in the middle of what's expected to be a reelection campaign. Faced with a similar choice in 1992, Bush reappointed Greenspan. But he may have rued the day: High interest rates helped push Clinton into the White House. Bush's fate is a reminder that Fed governors—like Supreme Court justices—don't always turn out the way Presidents who appoint them expect.

By Owen Ullmann in Washington



SANDS OF JOBS COULD BE ELIMINATED—ON TOP OF LAYOFFS ALREADY SET

NACCHIO WORKS
16-HOUR DAYS

WHIRLWIND HITS & T LONG DISTANCE

boss Joe Nacchio demotes an ad agency and aims his ax at costs

Joseph P. Nacchio clearly doesn't waste time. Just a few months into his job as head of American Telephone & Telegraph Co.'s consumer long-distance business, he has already made his mark. First, he killed the division's ongoing marketing campaign, called "i Plan." Then, he demoted NW Ayer, the longtime AT&T ad agency that was up with the concept and put a new one in its place. Next, he hired a new marketing executive from the consumer-products industry.

Now, Nacchio is laying plans to slash at his division, possibly by eliminating thousands of jobs. He won't be the only one, but *The Wall Street Journal* reported on Dec. 1 that the cuts could slash as many as 4,500 of the unit's jobs. Analysts called that estimate high, but say significant job cuts are to be made.

MANDATE. This whirlwind of activity isn't unexpected. Nacchio was named president of AT&T's Consumer Communications Services in August 1993, following a widely publicized mandate to turn things up. The division, which accounts for \$20 billion of AT&T's \$65 billion annual revenues, has been losing market share to MCI Communications and Sprint Corp. for years.

CEO Robert E. Allen needs to end the erosion of AT&T's core business. A reason: Consumer long distance is the cash cow that has allowed Allen to

pursue such grand schemes as AT&T's \$12.6 billion takeover of McCaw Cellular Communications Inc. "In the past year, with the failure of the i Plan, that cash cow has been at risk," says analyst Berge Ayvazian of telecom market researchers Yankee Group Inc.

Nacchio, a fast-talking, 44-year-old Brooklyn native, established a reputation for turnarounds as president of AT&T's business long-distance unit. There, he quickly matched discount-pricing plans from rivals and speeded up customer service for such things as installing new lines. He also cut costs, allowing the company to slash rates by about 30% overall while maintaining profit margins. These moves reversed a market-share loss, says Ayvazian.

But Nacchio has his job cut out for him at the consumer long-distance division. MCI, with its Friends & Family plan, and Sprint, with The Most, have been siphoning off millions of AT&T customers. Both plans offer discounts to frequently-called numbers, something AT&T still hasn't matched. And Nacchio won't find the problems as easy to fix as those in business long distance, where he could

devise unique calling plans for the 500 or so major customers that produce half the division's revenues. Now, he must please millions of individual households.

Nacchio is blunt when assessing AT&T's past responses to its rivals' marketing coups. "We're not known for speed—it took us 22 months to respond to Friends & Family," he said in a recent meeting with reporters. And the response was the poorly received i Plan. The "i" stood for individual, which signified that calling plans were supposed to be tailored to a customer's needs. But the campaign and its vaguely worded commercials only confused consumers. Now, a new ad campaign is under development. And under his watch, he boasts, the consumer long-distance division matched a new MCI international calling plan in a week.

Nacchio doesn't just want to react to his nimbler competitors. "You don't have to be a brain surgeon to match a pricing plan," he says. Instead, he wants AT&T to lead with marketing innovations. One thing he is looking at is targeting niche markets, such as people for whom English is a second language or customers in particular regions, with customized pitches and pricing plans. To do this, he hired a new chief information officer, Alan Jones, who will slice and dice the reams of computerized customer data the division controls, and a new marketing vice-president, Dan Clark, who had worked at RJR Nabisco Inc. and PepsiCo Inc. "We have to become the premier consumer marketing company," he says.

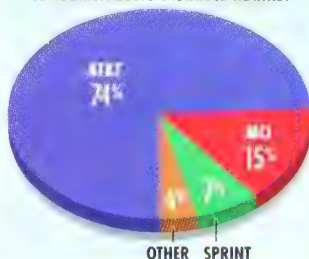
MORE HEAT. Meanwhile, Nacchio, who works 16-hour days, is focusing on his division's costs as well. The layoffs he is planning could save hundreds of millions of dollars in annual operating costs. They would come on top of an announcement last year to lay off about one-third of AT&T's 18,000 operators and supervisors over the next several years and a program by AT&T's NCR Corp. to eliminate 7,500 workers by next year.

But a leaner, quicker AT&T consumer long-distance business still faces two big obstacles: MCI and Sprint. Those competitors are not about to give up their hard-won market share to AT&T. If anything, the noise and heat from the three-way battle will intensify next year. And the real winners will be consumers.

By Bart Ziegler in New York

WHERE AT&T STANDS IN LONG DISTANCE

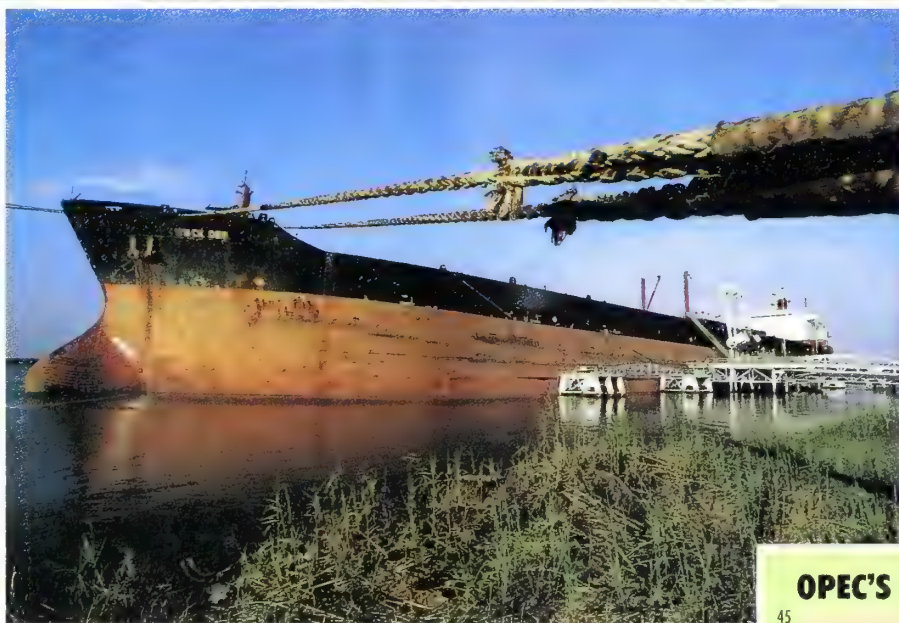
SHARE OF REVENUES FROM THE U.S.
CONSUMER LONG-DISTANCE MARKET



DATA: YANKEE GROUP INC

IT MAY BE A COLD WINTER FOR OIL PRICES

OPEC squabbling means cheap oil—and big trouble for independents



DELIVERY DAY: PRICES ARE AT THEIR LOWEST LEVELS IN ALMOST FOUR YEARS

When the opening bell rang at the New York Mercantile Exchange on Monday, Nov. 29, oil traders were prepared for the worst: Four days earlier, in the face of weak demand, OPEC had failed to agree on production cuts. The worst was what the traders got. At the end of a day of frantic trading, the January crude-oil contract had plunged by 7%, to \$15.31, its lowest level in almost four years. In the next two days, it recovered only slightly.

Few expect a quick turnaround. Oil prices are heading south with a vengeance this winter. Per-barrel prices have been swinging between \$15 and \$22 since 1987, but this time traders worry that the hibernation in prices may be long. "There's nothing to suggest we've seen the lows," says Lawrence Goldstein of New York-based Petroleum Industry Research Associates Inc.

DROPOUTS. Consumers benefit from the decline. And Big Oil isn't likely to be hurt much by the plunge, either. That's because most major companies are net buyers of oil, so lower prices initially boost profits. For small independents, though, it's another story. "If oil stays at \$15, lots of independents are going to drop by the wayside," says Bruce Anderson, head of Houston-based Bruce Anderson Oil & Gas Properties.

Why can't OPEC get prices back on an upward swing? The main reason: anemic economies worldwide. So far this year, says the Paris-based International Energy Agency, world oil demand is down 0.3% from 1992 and shows no sign of a pick-up. U.S. demand is still relatively strong. But demand is down in oil-dependent Japan, and recession-wracked Europe isn't doing any better. Laments Franco Bernabe, CEO of Italy's state-owned energy giant, ENI: "This is the first time in 20 years I haven't seen any growth. It's abysmal." The outlook for next year: "It could get worse," says Vahan Zanoian, senior director of consultants Petroleum Finance Co.

Nearly as vexing for OPEC is expanding production by nonmember countries, such as Norway, Britain, and Mexico. OPEC continues to gain market share for now (chart). But since the cartel agreed last September to fix its output ceiling at 24.52 million barrels a day to help firm prices, non-OPEC producers have compounded the downward price pressure by turning on their taps.

Take the North Sea. Norwegian and British wells are pumping at record lev-

els, up 25% since 1990. Alaskan production is up 10% since July, thanks to wells coming on. And new entries in world oil patch such as Yemen, Colombia, and Syria are all hoping to eat OPEC's share of the pie. In 1992-1993, notes Pierre Terzian of Paris-based *Petrostrategies*, non-OPEC production added 700,000 barrels a day of new supplies—while OPEC managed only 400,000. Next year, he predicts, OPEC might be able to add any new exports at

Longer term, Iraq—until the gulf war—the cartel's No. 2 producer—could add the oversupply. On Nov. 26, Baghdad announced it will accept long-term monitoring of its weapons sites by U.N. inspectors, increasing pressure on the U.N. to lift sanctions against Iraq's oil sales. Under discussion: a one-time fee of \$1 billion or more in Iraqi oil.

SLASHED BUDGETS. Pressure on OPEC is building. In theory, the cartel can't afford a price slump. That's because it generally costs more to extract oil in places such as the Gulf of Mexico and the North Sea than it does in the deserts of Arabia or North Africa.

But U.S. and European oil companies have been closing the gap. They've

cut costs dramatically. New technological advances, such as 3-D seismic modeling of geological formations and deep-sea drilling techniques, are allowing companies to slash their exploration and production budgets while opening once forbidding territory. At offshore wells in the North Sea, production costs are less than \$10 a barrel.

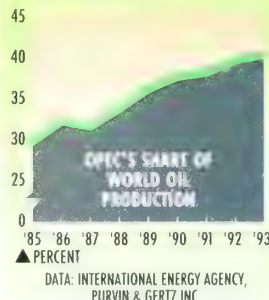
about \$15 a barrel 10 years ago.

Of course, if prices continue to fall, OPEC could yet bite the bullet and cut down on production. That has Chevron Corp. economist Tom Burns predict that prices will bounce back to an average of around \$19 next year, the same as for most of this year. "Every time OPEC has faced a cyclical low, it has responded by patching over its deficiencies," he says.

Most likely, however, OPEC will wait for economic recovery to light a fire under demand. "There's an old Arab saying that if you're stupid enough to ride on top of the tiger, you might as well ride it for a while," says Petroleum Finance's Zanoian. "It's too early for OPEC to react." Given the many upward forces on oil prices, OPEC's response may be just beginning.

By John Rossant in Rome, with
Burrows in Dallas

OPEC'S GROWTH





UNITED WE SIT AND HAGGLE

Out talks go on because both sides fear the alternatives

the deal that won't die. Just two weeks after all sides pronounced the employee bid to buy United Airlines extinct, the carrier's management unions met on Nov. 30 to launch yet another round of talks.

What brought them back together? They realized that the alternatives would make everyone worse off. The unions don't want to lose thousands of jobs if the company turns instead to an ambitious restructuring plan. Better, they figured, to return to the table with new ideas—any, improving on their \$140-a-share bid or taking less than the 60% stake the union had insisted on before.

United management had good reason for not talking again, too. Its proposed restructuring plan, which involves spinning off the carrier's short-haul routes into new companies, is fraught with trouble. Indeed, internal company studies conducted by BUSINESS WEEK suggest that the carrier would make less than 2.5% of operating profits through 1998. "They're creating the next Pan Am," says Paul Boyd, the president of Aviation Research Corp., an industry consultant in Golden, Colo.

THE BIG POINT. The two sides still must find a way to close the gap between them. At the Nov. 30 meeting in New York, union officials and United chief negotiator Paul George resolved outstanding issues about proposed labor pacts and the rules that would govern the board of directors after a buyout. "For the first time, they were really responsive," says a union source.

Next day, United Chairman Stephen Wolf and President John C. O'Leary sat down with union leaders to

tackle the central sticking point: price. Company officials say privately that they want close to \$180 a share. The International Association of Machinists (IAM) has proposed breaking the logjam by accepting less than 50% for the \$5.5 billion in wage and benefit concessions the unions have offered, according to union sources. The pilots, however, insist on a majority shareholding; they say they might cede more concessions in return. The problem is, the machinists, who make less than half what pilots earn, don't want to give up any more.

That's where the flight attendants may help out. They walked away from the buyout on Sept. 30, after United opened a foreign flight-attendant base that deprives U.S. union members of jobs. Now, they want back in. Since the attendants already had agreed to contribute some \$600 million in concessions, their participation could allow the unions to raise their bid. If United comes down a little, the two sides might meet somewhere in the middle.

Certainly the company has reason to compromise. Although the inter-

nal studies say that a restructured United would be worth at least \$183 a share, the studies also indicate that the new core airline likely would fare worse than the spin-offs. The basic restructuring plan, drawn up by United staffers and consultants from Booz Allen & Hamilton Inc., envisions the spin-off of four regional carriers that would operate short-haul flights representing 25% of United's revenues (chart). The spin-offs would rake in operating profits of 13% to 22%, according to Booz Allen.

KITCHEN QUARREL. The study doesn't project what the profits would be at the remaining 75% of the airline, which would consist primarily of transcontinental and international routes. However, it's possible to get a rough estimate of what might happen. A separate analysis by investment bankers First Boston Corp. includes overall operating-profit projections for the combined entities through 1998. Take out the share that Booz Allen attributes to the four spin-offs, and what's left is a company making a mere 2.5% in operating profits. In other words, the core airline would be in the same sorry shape it is today: suffering from low profits and few prospects for growth. United declined to discuss its internal studies.

Despite the incentive for United and labor to cut a deal, the barriers preventing a buyout remain high. The first attempt foundered in part because

United carried out its threat to sell its flight kitchens to Dobbbs International Services Inc., which will cost the IAM 5,200 jobs. The IAM still insists that the kitchen deal be abrogated, which United could do if it was willing to face a breach-of-contract suit. But the company has made no promises.

Still, the alternative, filled with prospects of labor strife and financial risk, is hardly promising either. Perhaps if the two sides talk long enough, they'll find a way out of the quagmire.

By Kevin Kelly in Chicago and Aaron Bernstein in New York

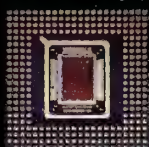




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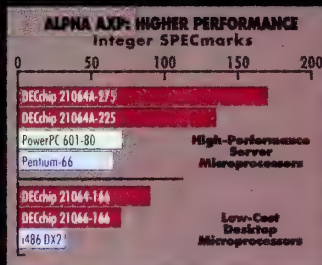
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W o r k

digital

THE PARAMOUNT BOUT: BOTH SIDES COULD TAKE IT ON THE CHIN

Doubts about Diller and resentment of Redstone may leave scars

Investor Mario Gabelli likens the takeover battle for Paramount Communications Inc. to a colossal corporate baseball game. Now, says Gabelli, the contest has been halted in the ninth inning by "debris on the field." He's talking about a lot more than beer cups and hot-dog wrappers.

On Nov. 24, a Delaware Chancery Court threw out key provisions of Viacom Inc.'s original merger deal with Paramount that would have given the company an edge over rival bidder QVC Network Inc. Rebuking Paramount Chairman Martin S. Davis and his investment bankers at Lazard Frères & Co., Vice-Chancellor Jack Jacobs ruled that they didn't properly assess QVC's offer, which now stands at roughly \$380 million more than Viacom's bid.

Davis and Lazard aren't the only ones who may come out smarting. As Paramount and Viacom scramble to appeal the ruling in Delaware Supreme Court, media experts say the duel could damage both Viacom's Sumner M. Redstone and QVC's Barry Diller. Measured by its impact on reputations and future opportunities, this battle could be as costly to the loser as to the winner. Says one leading media investment banker: "Both companies have irreversibly changed their destinies by going into this deal."

GREAT EXPECTATIONS. Who has more to lose? Media analysts and rival executives differ sharply. But on balance, Diller may face the tougher comeback if his bid for Paramount fails. That's because investors bid up QVC's stock on the expectation that the creator of Fox Broadcasting Co. would do similarly great things with his home-shopping network. True, his stock will get a short-term boost if Diller doesn't have to ante up \$10.2 billion. But longer term, says

Porter Bibb, an investment banker at Ladenburg, Thalmann & Co., "QVC's stock is a promotion, and it will be deflated if QVC boils down to a home-shopping network."

No question, home shopping is still a vibrant business. QVC's operating income jumped 26% in the first nine months of 1993, to \$99.1 million, on revenues of \$849.6 million. Yet several executives familiar with QVC wonder whether Diller has developed enough of a feel for re-

insist that a merger could still happen. The trouble is, HSN is controlled by one of Diller's key shareholders, John C. Malone. And Viacom's Redstone has turned Malone into a lightning rod for federal regulators by filing an antitrust suit against him and QVC. "One thing Redstone has probably done is to separate Malone and Diller," says Peter Sirri, a retailing analyst at UBS Securities Inc. **"UNFORGIVABLE."** The same issue could dog Diller if he decides to bid for another entertainment company, as many observers expect he would. Among possible targets: Matsushita Electric Industrial's MCA or Sony's Columbia Pictures. But even if they wanted to, Diller might end up competing with Malone. Indeed, Malone, who runs TriStar Communications Inc., has already talked to both about buying an equity stake.

If Redstone has complicated Diller's plans, he has hardly made his own life easier. In suing Malone, a cable TV's preeminent executive, on the terms of an issue of antitrust, Viacom has alienated many people in the industry. "It's one thing for us to consider to bash cable," says a rival executive, "but when someone sides the industry down, that's unforgivable."

Even after the dust settles, Redstone will probably get a cool reception from his peers. That won't matter much to Viacom's established cable networks, MTV and Nickelodeon. But rival executives say cable operators may see new ventures, such as spin-off channels, as a way to catch up with MTV. And they are already behind competing services, such as adult

sic-video and home-shopping channels announced by TCI and Bertelsmann. Redstone would certainly be in a better position to mend fences if he controlled a goliath such as Paramount. That may explain why observers expect the bidding for Paramount to go another round, regardless of how the Delaware court rules. He and Redstone may have different motives: One sees the deal as the key to making his reputation; the other, a capstone to his career. But on this point they seem to agree: The price of failure will be more than a bruised ego.

By Mark Landler in New York



WAGES OF DEFEAT

What the contenders could face if they lose Paramount

QVC NETWORK

Its stock price could drop, as investors come to see the company as an investment vehicle without an investment. Fees for lawyers, investment bankers, and public-relations experts could total more than \$50 million.

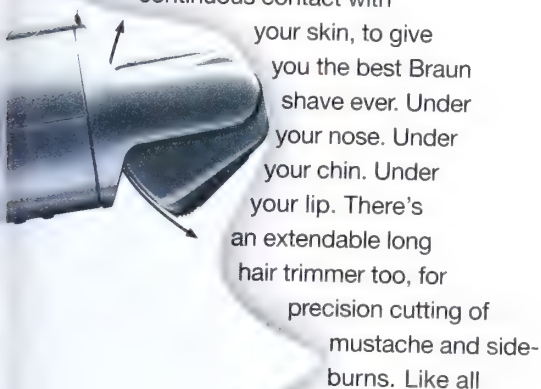
VIACOM

Its relationships in the cable industry are questionable, thanks to a raft of lawsuits filed by Chairman Redstone. It could also become a takeover candidate, since its small size limits its ability to compete with multimedia giants.

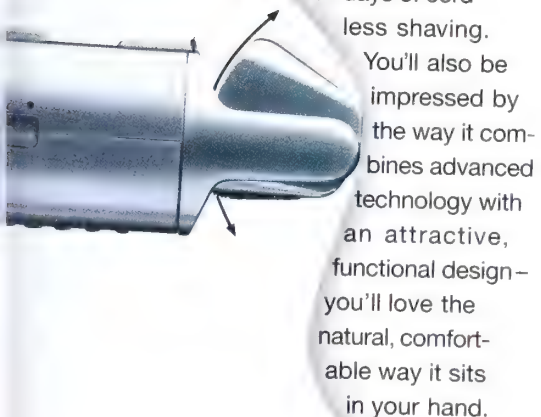
tailoring to broaden his franchise. In a Dec. 1 announcement, QVC trumpeted its new, upscale Q2 channel as the first of a series of market-segmented channels. But observers note that Diller has recruited programmers rather than home-shopping veterans to start up Q2. One result, they say, is that the channel is struggling to find vendors. Q2 President Candice Carpenter says she has already lined up Nike Inc. and other companies.

What's more, Diller may have lost his most obvious avenue of growth: He probably won't be able to rekindle merger talks with archrival Home Shopping Network Inc. Executives close to Diller

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knows your
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GUNPLAY ON INTERACTIVE TV

Makers of video controllers go to court—and it looks like a long war

The first shots have been fired in a battle to control an on-ramp to the Information Superhighway. Four companies, each seeking to become the dominant supplier of an electronic interactive television guide, have filed five patent lawsuits against one another since Oct. 15. And more are coming.

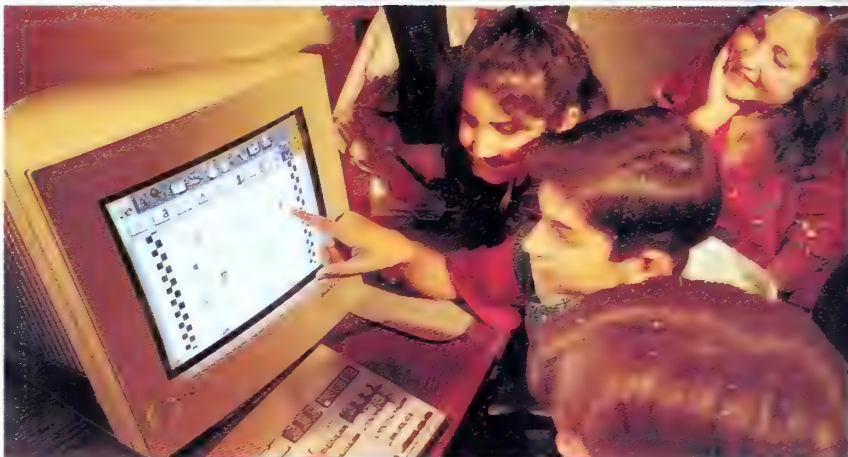
At stake: the billions of dollars viewers will pay for services that help them navigate interactive TV. The technology, now being tested in several markets, lets viewers select individual shows or programming categories from an on-screen menu and create a personal schedule for future viewing. "Our product tells you what you're watching and where you want to go," says Michael Faber, chairman of StarSight Telecast Inc., a seven-year-old venture in Fremont, Calif., that initiated the litigation frenzy.

StarSight, whose partners include Viacom International, Cox Communications, and Tribune, first sued rival Gemstar Development Corp., alleging infringement of patents that let consumers surf through 500 channels and view or record programs. StarSight, which says it spent \$20 million developing its technology, also sued Tulsa-based United Video Satellite Group Inc. and its subsidiary Trakker Inc. for infringement after those companies sued StarSight.

MORE TO COME. Gemstar, based in Pasadena, Calif., countered with two suits on Nov. 15 and Nov. 17, charging StarSight with both patent infringement and anti-trust violations. The disputes go to the heart of all the companies' businesses: the defining technology that enables consumers to store and recall electronic TV listings. Should Gemstar's patent prove legally enforceable, "then all electronic interactive TV guides infringe on it," says Chairman Henry C. Yuen.

The early suits, say experts, mark the start of a drawn-out turf war. "What you have are only the first of many battles to come over who will have the prevailing infrastructure on software that 250 million Americans will use," explains Steven D. Glazer, a New York intellectual-property lawyer. After the courtroom dust settles, though, an even tougher test awaits: wooing viewers.

By Linda Himelstein in New York, with bureau reports



TESTING THE MICROSOFT PROGRAMS: SO FAR, SMALLER RIVALS HAVE PREVAILED

WILL KIDS FIND MICROSOFT COOL?

It's launching programs for them in hopes of cracking the home market

Can William H. Gates III, the 38-year-old billionaire chief executive of Microsoft Corp., learn to think like a kid?

Gates has run circles around executives twice his age, leading his \$3.8 billion company to the top of the business software industry. But he has barely cracked the growing home market. On Dec. 7, Gates begins his assault with two software packages specifically designed for kids: a writing program called Creative Writer and a drawing package called Fine Artist.

Microsoft is one in a crowd of developers looking to tap into the fast-growing, \$2.8 billion market. In November, WordPerfect Corp. announced it will target home PCs with its Main Street software. Others are right behind. "The number of new products coming out in the next 12 months is staggering," says Peter J. Rogers, an analyst with Robertson, Stephens & Co.

Microsoft itself expects to unveil more than 100 home products within two years. But Gates concedes that success will require new thinking at Microsoft. "Only a small percentage of the people who work at Microsoft are kids," he says, only half-joking. "We're going to have to change."

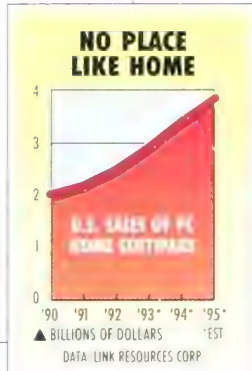
Certainly, Microsoft's penetration of the home-software market so far has been far from stellar. Mediocre products and lackluster mar-

keting have kept it from beating smaller rivals. Microsoft Money, for example, a home banking and financial package first released in 1991, has captured less than 15% of the market for Intuit Inc.'s Quicken, the market leader.

BIG SELL. But Creative Writer and Fine Artist, the culmination of 18 months of development that included focus-group research with children, aren't the usual Microsoft fare. Creative Writer allows kids to write a story by generating random sentence fragments, replete with animation and sound effects, that are linked together. Fine Artist can create animated comics. Tools to produce school reports or giant banners are located on different floors of a cartoon house, which kids navigate by sliding down a fireman's pole or riding an elevator. Instead of the thick instruction manuals that comes with most programs, animated character named McZee gives advice.

Gates says he will spend "tens of millions" of dollars in marketing and advertising in the next year. Microsoft will air 700 commercials and is adding discount vendors such as Price/Costco to its list of software outlets. That's a dramatic shift for the company. Perhaps, with his marriage pending, Gates is starting to take home-software kids more seriously.

By Richard Brandt in San Francisco





24-month, 24-month lease at participating dealers. Tax, license, title fees and insurance extra. Mileage charge of 15 cents per mile over 30,000. GMAC must approve lease. Example based on 4-Door S-Blazer Tahoe 4x4, \$22,847 M.S.R.P. including destination charge. First month's lease payment of \$299.83, \$1260 down payment, plus \$325 refundable security deposit for a total of \$1883.63 due at signing (includes capitalized cost reduction). Total of monthly payments is \$7167.12. Payments may be slightly higher in AL, AR, CA, NY, TX and VA. Option to purchase at lease end for \$16,022.82. Residual value is fixed at lease signing and varies by model, equipment level, usage and length of lease. Lessee pays for excessive wear and use. See your participating dealer for qualification details. Chevrolet, the Chevrolet Emblem and Blazer are registered trademarks and Chevy and Tahoe are trademarks of the GM Corp. ©1993 GM Corp. All Rights Reserved. Buckle up, America!

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MARLBORO COUNTRY BLUES

To get on its feet, Philip Morris is cutting 14,000 jobs

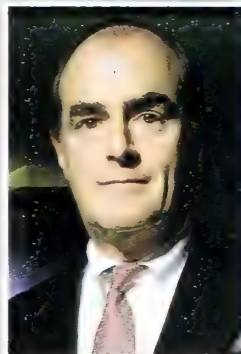
Poor Michael A. Miles. Since taking charge at Philip Morris Cos. in 1991, he has more often than not been the bearer of extremely bad news.

First, there was "Marlboro Friday"—Apr. 2—the day Philip Morris announced it was slashing prices on Marlboro cigarettes by 40¢ per pack. The news sent its stock down 23%. Then, on Nov. 24, the company's board approved Miles's plan for a wholesale restructuring. Under its terms, Philip Morris plans to eliminate 14,000 jobs, or 8% of its work force, and close roughly 40 plants. Among the casualties: Miller Brewing Co., which announced on Dec. 1 that it will lay off 1,200 workers and shutter a plant. The

moves will reduce profits by almost \$1 billion this year. And for the first time in 25 years, Philip Morris's dividend (\$2.60 this year) will not be increased. Still, Philip Morris stock jumped 62.5¢, to \$55.50, on the news of the restructuring.

Kraft General Foods Inc. will bear the brunt of Miles's knife. Kraft sold its frozen-desserts business to Unilever PLC in October and is in the midst of selling Birds Eye frozen vegetables to Dean Foods Co. for \$140 million. Analysts speculate that Kraft's food-service and American Gourmet frozen-meals divisions may go on the block next. "The margins for food service are next to nothing, so that's going to be downsized," says John McMillin at Prudential-Bache Securities Inc.

At the same time, there's no end in sight for the problems at Morris' domestic tobacco division. It's true that since slashing prices on Marlboros, the compa-



MILES'S PRICING PLOY MAY COST \$2 BILLION

ny's market share jumped to 24.3% from 23.7%. But the effort to buy back lost market share, on top of the restructuring, has cost at great expense. "They're accomplishing the objective they laid out on Apr. 2, but it's costing them \$2.3 billion in operating profit," says Gary Black, a tobacco analyst at Sanford Bernstein & Co. "The question is, is it worth it?" The tobacco division's Richmond, Va., office said on Dec. 1

would lay off roughly 900 workers.

What a comedown all this is for Miles, who inherited a \$56 billion company that enjoyed a fantastic run during the 1980s. Now, investors—and employees—want Miles to bring back the good old days. "Miles will go down in history as a man who cut prices on Marlboro," says Black. If he can't enact a turnaround, though, Miles will be lucky if that's his epitaph will say.

By Laura Zinn in New York

LAS VEGAS

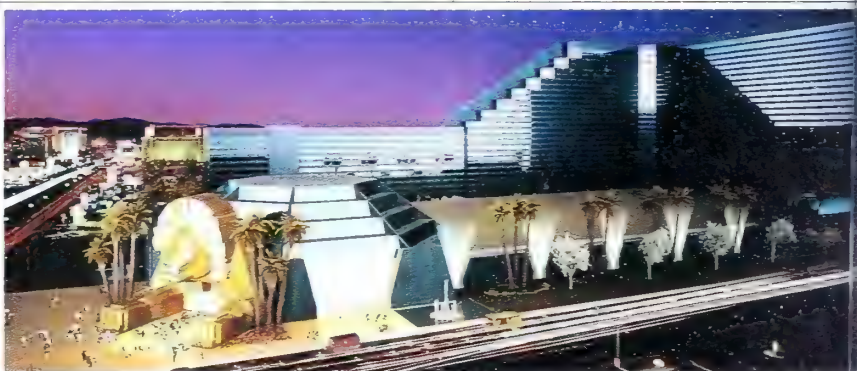
KIRK BETS A BILLION

Kerkorian rolls out MGM's Grandest project yet

No one will ever accuse Kirk Kerkorian of being cheap. In his younger days, the 76-year-old billionaire used to jet off late at night with friend Cary Grant to drop thousands at the tables in Las Vegas. But that's chump change compared with what Kerkorian's 73%-owned company, MGM Grand Inc., is spending to make its \$1.03 billion, 5,005-room MGM Grand Hotel & Theme Park—opening Dec. 18—the hottest joint in an already bustling Vegas.

Start with the estimated \$20 million Barbra Streisand will get for her two New Year's performances. Then throw in Frank Sinatra, Don Rickles, and Kenny Rogers, who'll split another \$1 million or so for their gigs at Kirk's place over the Christmas-New Year's week. Add an exhibition tennis match between Andre Agassi and Jimmy Connors on opening day and millions more for advertisements, including a high-tech spot that cost \$1 million to produce. "In all, we'll be spending in the tens of millions," says MGM President and Chief Executive Robert R. Maxey.

The big bucks are meant to help the



VIRTUAL VEGAS: A COMPUTERIZED IMAGE OF MGM'S 5,005-ROOM HOTEL-CASINO

Grand claw its way ahead of a slew of new megacasinos in Vegas. In November, Mirage Resorts Inc. opened its \$475 million pirate-fantasy Treasure Island hotel and casino, just down the Strip from Circus Circus Enterprises' new \$375 million Pyramid-shaped Luxor. With the addition of the MGM Grand, there are now a staggering 86,645 rooms in the city—a 13% jump from 1992, for a market where tourism is running only 6% ahead of last year.

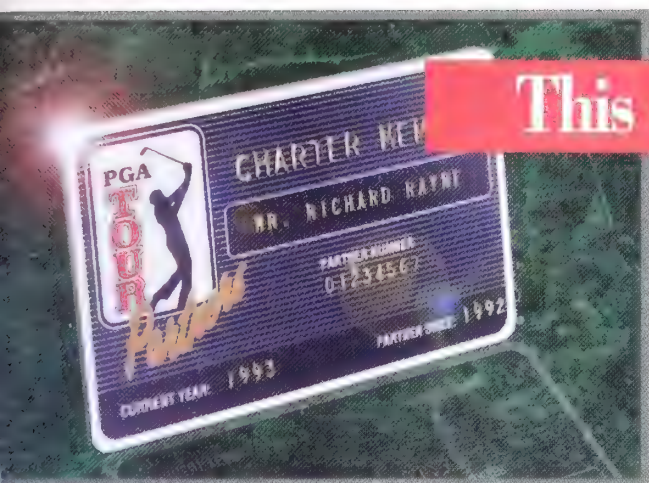
AMERICANS IN VEGAS. With \$473 million of debt on its books, Kerkorian's new joint must generate sales of more than \$1.2 million each day just to cover interest and operating expenses. Analysts say that only a few casinos—such as the Mirage and Donald Trump's Taj Mahal—have drawn that sort of business, and that was before the new competition crowded the strip.

No other hotel matches the Grand's scale, though. Its 171,500-square-foot ca-

sino is 70% larger than the Mirage's, and it has nearly 2,000 more rooms. The Grand has its own 40-megawatt power plant, a clinic with 12 full-time doctors and a buffet that can serve 11,000 meals a day. MGM Grand executives have convinced investors that they expect 2 million gamblers and their kids to pay \$25 apiece to ride the 12 rides at its 33-acre theme park—generating \$58 million a year.

Sound risky? Kerkorian has to build casinos and sold them at big profits. Chances are, he'll attract a fair share of gamblers through his doorway's seven-story lion's head. They'll sit at a pool and beach area the size of two football fields and, soon, catch a \$30 million special-effects show. "We're going to get everyone to come to our place because we're selling them entertainment," says MGM President Maxey. To make it work, the Grand will also have to sell them spending some serious money.

By Ronald Grover in Las Vegas



This card

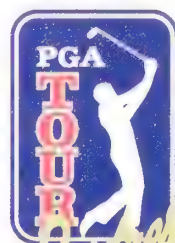
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These courses



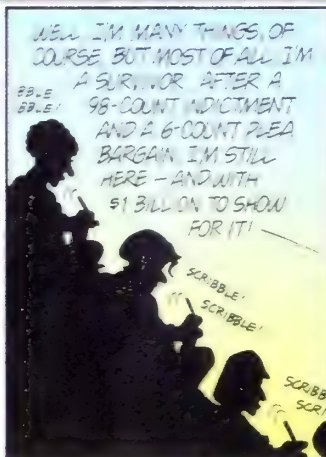
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Here's how

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FREEDOM IS NO PICNIC FOR MIKE MILKEN

A roasting from Trudeau—and a flap over marketing B-school videos

You just can't keep Mike Milken down—or out of hot water. Less than a year after his release from federal prison, the former junk-bond baron is sparking controversy again. This time, everybody's riled up over Milken's plan to market tapes of the management course he's teaching at the University of California at Los Angeles. A state senator has condemned UCLA for cutting a deal with a convicted felon. Meanwhile, cartoonist Gary Trudeau very publicly lambasted Professor Milken in his *Doonesbury* comic strip.

Chances are, this won't be the only dust Milken stirs up as he pushes ahead with a comeback. Permanently barred from Wall Street, Milken has his sights dead set on making it in a less glamorous sphere: educational software. His fledgling business, EEN Communications Network, has invested in one potential supplier of interactive programming, and Milken is scouting others. The UCLA tapes are his first experiment in developing educational programs he figures his company will one day transmit to homes over cable TV. "Our focus is creating educational products that people will want to play, do, or watch," Milken explains.

TAINTED DOUGH. If he ever gets his products to market, that is. California State Senator Patrick Johnston is pressuring UCLA to drop its deal with Milken. In a Nov. 19 letter to university officials, Johnston questioned a copyright agreement that gives the school a share of Milken's profits—university officials say less than 10%—if the tapes are sold.

"The University of California should not be engaged in profiteering from tapes on 'pop' economics presented by a convicted felon," Johnston argued.

UCLA and Milken plan to go ahead with the partnership. Carol Scott, an associate dean at UCLA's B-school, says the university did the deal to be sure the school had control over the use of its name. Scott also says that Milken's history—including his 22 months in federal prison after pleading guilty to six charges of securities fraud and other violations—should not preclude him from teaching. "We have very mature adult students," she says, "who can hear different views and decide for themselves."

Milken dismisses the flap. He says he is considering teaching again in the spring. And he denies using the class as a forum to air his views about the junk market or his legal problems. "I don't think Senator Johnston knows me," Milken says. "And he doesn't know anything about what I did for a living."

Indeed, Milken insists that EEN eventually will be a big business. He figures the UCLA tapes could help his new enterprise design teleconferencing classes for MBA students and business executives.

At EEN, says Milken, "our focus is creating educational products that people will want to play, do, or watch"

Searching for the right interactive technology for the network, Milken looked at more than 200 companies as a possible investment. He made his move in August, investing an undisclosed sum in 7th Level, a multimedia startup founded by former Micrograph Inc. executive George D. Grayson and former Pink Floyd sax player Syd Barrett. 7th Level's first product—an interactive cartoon with the voice of comedian Howie Mandel—is due out in January.

SPELLBINDER. Milken expects the 7th Level investment to be just the first of many. He hopes his network one day will broadcast eight channels of interactive educational programs. Milken's charisma is already helping 7th Level. In the days, Milken brought Lorimar Television co-founder Merv Adelson into the company as an investor. Milken also introduced the 7th Level executive to music producer Quincy Jones and O. McCaw, founder of McCaw Cellular. And he still has plenty of other powerful friends. Mirage Resorts Chairman Stephen A. Wynn has spoken to his cell, and MCI Communications CEO Berle A. Roberts Jr. is expected soon.

Milken hardly needs work. His fortune is estimated at more than \$300 million, and he's writing an autobiography to help fund research into prostate cancer, with which he was diagnosed in February. Still, educational efforts are taking more and more of his time. At a speech last summer to inner-city parents about DARE PLUS, the afterschool program he coordinates under the terms of his probation, drew a crowd of 800. It generates tremendous enthusiasm, says DARE America Executive Director Glenn Levant.

No doubt. The question now: Can Milken generate enough enthusiasm to make his educational network a hit?

By Amy Barrett in Los Angeles

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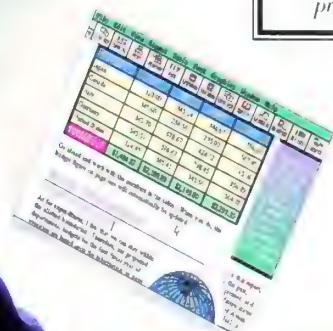
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someone
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nightmare.



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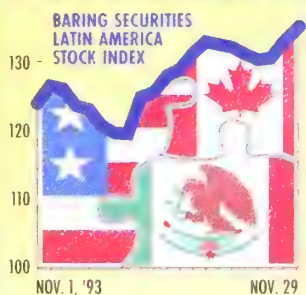


A Business of Caring.

In Business This Week

EDITED BY THANE PETERSON

CLOSING BELL



POST-NAFTA BOUNCE

Investors love the North American Free Trade Agreement—at least, investors in Latin America do. Baring Securities' Latin America stock index has risen 3% in the two weeks since the trade pact's approval and 13.1% since the Gore-Perot debate. The climb may well continue. Luis Donaldo Colosio Murrieta's Nov. 28 anointment as the probable successor to President Carlos Salinas de Gortari also buoyed markets: Colosio promises to continue free-market policies. Five other Latin American countries hold elections next year that could boost reforms, too.

DATA: BRIDGE INFORMATION SYSTEMS INC., BW

PINNING BACK THE POSNERS' EARS

On Dec. 1, Victor Posner and his son Steven were barred by a federal court from ever again serving as directors or officers of a public company. They must also pay penalties of nearly \$4 million and put their stock holdings in a blind trust to keep them from exercising control over any companies. In his decision, Judge Milton Pollack wrote that the Posners "engaged in self-dealing and enriched themselves at the expense of public shareholders" in their mid-1980s takeover of Fischbach Corp. The Posners' lawyer, Dennis J. Block, says: "The opinion has no basis in fact, and we plan to appeal."

FLORIDA POUNCES ON THE JAGUARS

For sports nuts per capita, the Sunshine State must be No. 1. It already has new franchises for hockey and baseball (the Florida Panthers and Florida Marlins). And on Nov. 30, Jacksonville beat rivals to snare a National Football League expansion team. The Jacksonville Jaguars gives the state three (with the Miami Dolphins and Tampa Bay Buccaneers). The franchise's owners include J. Wayne Weaver, who helped launch women's shoe retailer Nine West Group, and Jeb Bush, gubernatorial candidate and son of the ex-President.

A MORE SHIPSHAPE KENDALL SQUARE

Bill Koch, who once skippered a winning entry in the America's Cup race, will now attempt to pilot supercomputer hopeful Kendall Square Research off the rocks. The company's largest stockholder, Koch took the helm as temporary CEO on Dec. 1, after Kendall Square announced a sweeping restatement of 1992 and 1993 earnings and demoted CEO Henry Burkhardt III to president. Kendall Square also admitted it had vastly overstated revenues. The company

HEADLINER

CITIZEN RON

Is Wall Street ready for yet another media empire? Ready or not, Ronald O. Perelman seems intent on creating another one. On Nov. 24, the financier said he planned to fold his TV production companies and film libraries into SCI Television, a chain of seven TV stations he took over last February. Once the new company, to be called New World Communications Group, is up and running strong, analysts expect Perelman to take it public.

Perelman, who already owns a controlling stake in comic-book giant Marvel Entertainment Group, has been tight-lipped about his ambi-



tions. But he has been generally acquiring interests in everything from the programmer that distributed *The Whoopi Goldberg Show* to one of the leading producers of infomercials.

In addition, Perelman has approached Perelman about putting Television's stations into new TV networks and bankers betting he will make further media acquisitions. One popular theory: Perelman's friendship with Barry Diller will lead to two to form an alliance between New World and CBS. Stay tuned for the next round of media deals.

By Mark Lane

now estimates that fiscal 1992 sales, originally reported at \$20.5 million, were actually \$4.2 million lower. That increased its net loss from \$12.7 million to \$17.2 million.

AN X-RATING FOR MORTAL COMBAT?

Congress' war on video violence may be extending to video games. On Dec. 1, Sena-

tors Joseph I. Lieberman (Conn.) and Herb Kohl (Wis.) announced that they plan to introduce a bill to force gamemakers to notify parents if a game is excessively violent. The legislation would ask the industry to set up an independent board to rate games for violence, not as movies are currently rated. If business doesn't agree to such a system within a year of the bill's passage, the federal government will step in. At least one gamemaker, Sega Enterprises, already rates its own games.

PHOTO FINISH



RETURN OF THE MEDFLY: JUST THREE YEARS AFTER DECLARING THE PEST GONE, CALIFORNIA'S \$18 BILLION AG INDUSTRY IS THREATENED AGAIN

ET CETERA...

- Developer Stanley Tretkoff withdrew from the running for head of Resolution Trust Corp.
- French press reports that Walt Disney will invest \$500 million more in EuroDisney.
- Boeing says it will cut job production and eliminate 300 to 3,000 jobs in 1994.
- Dell Computer posted third-quarter profit of \$19 million—better than expected.

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HOW CLINTON COULD END WELFARE AS WE KNOW IT

ever since the 1992 campaign, Bill Clinton has been struggling to convince the nation that he's different from the tax-and-spend Democrats of old. Now, the President is waging a fight that may finally allow him to establish his credentials as a New Democrat.

Clinton is determined to deliver on a campaign pledge to end "welfare as we know it" in an effort to break "the permanent culture of dependence." That promise helped him win the hearts of many erstwhile Reagan Democrats. But tackling the issue will embroil the President in a major fight with conservatives, who still tend to dismiss talk of reform as thinly veiled racism. "This is not going to test his mettle," says Representative E. Clay Shaw (R-Fla.), co-author of a GOP welfare plan.

A task force is due to present welfare-reform recommendations to Clinton by January 1, and it looks as if the centerpiece will be a cutoff of benefits after two years unless a recipient is seeking education or training. And the Clintonites appear to be looking away from a huge program of public jobs for former recipients. In that's because they lack the money. The Administration also believes that the solution to the welfare morass may lie in business, not government. "Reform is to move people from welfare into jobs, and we much prefer private-sector jobs," says one official.

MEASURES. To achieve that goal, the Administration will attempt to "build bridges" to business, says one Clintonite. Measures being mulled include expanding an existing tax credit to employers a bigger break for hiring former welfare recipients providing tax inducements for training at the job site; creating public-private partnerships to make sure that leaving welfare are trained for real jobs. Clintonites also hope to learn from state and local experiments such as New York City's contract with America Works, a company that helps welfare recipients find training, transportation, day care, and jobs. And they're watching a new Virginia program that gives employers a bit of the former benefits of welfare recipients they hire.

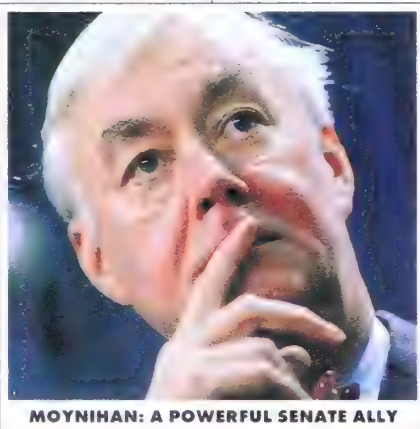
Business groups are encouraged, but they are waiting to see more details. "There is a desire on the part of the Administration to make welfare reform real, but they've got a shortage of specifics," comments Lisa M. Sprague of the U.S. Chamber of Commerce.

Not surprisingly, many liberals are apoplectic. "There is a fear that this will simply become nothing more than a windfall for business," says Mark Greenberg, attorney for the Center for Law & Social Policy, an advocacy group. On Nov. 24, 89 House Democratic liberals sent Clinton a tough letter warning him not to punish the poor. "The progressives need to step up and set our limits that we will not move beyond," says Representative Lynn Woolsey (D-Calif.), the only former welfare mother in Congress.

But the liberals may well be outgunned. In the Senate, the Administration will have a powerful ally in Finance Committee Chairman Daniel Patrick Moynihan (D-N.Y.), a fervent reform advocate for 25 years. Seventy-seven members of the House Democrats' Mainstream Forum have signed a letter urging President Clinton to stick with the two-year limit. And White House thinking is not that far away from a House GOP plan that has attracted 160 co-sponsors.

Liberals aren't admitting defeat. They warn that the fight could cripple Clinton's campaign for health-care reform. But for now, Clinton seems prepared to take on the Democratic left. Given the public disgust with "welfare as we know it," it's a battle the White House is convinced it can't lose.

By Richard S. Dunham, with Mike McNamee



MOYNIHAN: A POWERFUL SENATE ALLY

AL WRAPUP

WHITE HOUSE

reshuffling of the White House staff is falling into place as Clinton prepares for the political battles of 1994. The staffing of the Administration is nearly complete, Clinton intimates. R. Lindsey is giving up his role as personnel director to become a member without portfolio. One adviser, Lindsey, a former Little Rock attorney, will act as "the President's eyes and ears." Philip Lader, director for management at the Office of Management & Budget, is in charge of the personnel office. Two big vacancies still remain. Aides are still searching for re-

placements for Deputy Chief of Staff Roy M. Neel and chief lobbyist Howard G. Paster. Three veteran Democratic political operatives have emerged as top contenders for Paster's post: Martin D. Franks, now a CBS Inc. executive; Democratic lobbyist Michael S. Berman; and Wendy R. Sherman, assistant secretary of state for legislative affairs.

ENVIRONMENT

Elevation of the Environmental Protection Agency to Cabinet rank was supposed to be a no-brainer for Clinton. After all, legislation giving the EPA new status without changing its powers nearly passed in the final

months of the Bush Administration. But a flurry of amendments to either strengthen or weaken the new department caused the Senate-passed bill to stall in the House. It won't be taken up again until February, and even then, enactment isn't assured.

The greatest threat is an amendment, sponsored by Representative John L. Mica (R-Fla.), requiring the reconstituted EPA to produce a cost-benefit analysis for all regulations. Environmentalists would rather see the EPA remain as it is than see an upgraded department born crippled. So the stalemate may continue. "Time is definitely on our side," comments an aide to Mica.

JAPAN: HOW BAD?

THE SLUMP EXPOSES A DEEPLY TROUBLED ECONOMY

Is Japan tanking? That's the seemingly inescapable conclusion as torrents of nasty news wash over the Japanese economy. During the past 13 weeks, the Nikkei index has crashed by 19% in the wake of plunging corporate profits, a liquidity squeeze, and frustration with a government that seems incapable of doing anything to correct Japan's sagging economy. On Dec. 1, the index closed at 17,125 yen.

The market's fall is further jeopardizing fragile banks and insurance companies, dependent as they are on their stock portfolios for financial health. Banks recently reported profit drops for the first half of the fiscal year and a growing number of problem loans. Department-store sales in October fell for the 20th straight month. In a recent survey, Japanese companies said their capital investment would decline in 1994 for the third straight year, by 3.5%. Unemployment is rising, business and consumer confidence are touching alarming lows, and even long-sanguine government officials admit they see no light at the end of the tunnel. "There's no prospect for improvement," says Yasuko Niimura, a deputy director-general at the Economic Planning Agency.

NO RESCUE. What makes the Japanese quagmire so worrisome is that it is vastly different from previous recessions. The "oil shocks" of 1973 and 1978—which were externally generated—just briefly interrupted Japan's march toward economic might. Last year, after a similar market plunge, government intervention lifted the Nikkei and helped paper over the problems. But this time, the coalition government of Prime Minister

Morihiro Hosokawa has been slow in taking action.

That's helping to expose the economy's deep structural problems, which throw into doubt Japan's long-term competitiveness even as the leading edge in technology moves away from traditional Japanese strengths (table). Some analysts wonder if Japan is on its way to becoming another Germany—an increasingly hobbled high-cost producer, lagging in leading-edge technologies and

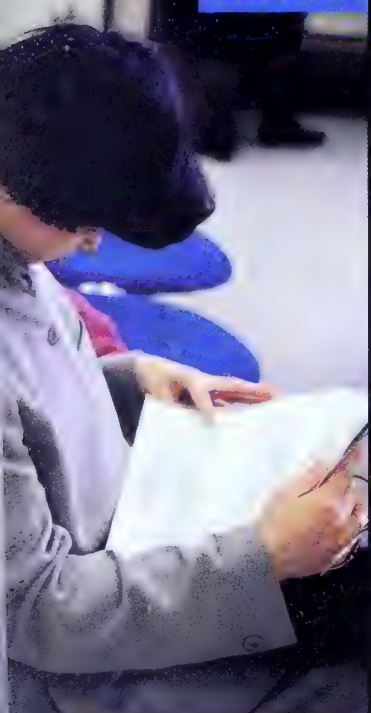
saddled with redundant workers. "Can Japan move from excellence in hardware and boxes to excellence in software and systems?" asks James C. Abegglen, chairman of Gemini Consulting (Japan). "The question remains open."

Few analysts expected the latest Nikkei plunge. As recently as last spring, even prominent bears foresaw an upturn by now. But the yen's unforeseen surge and a cold summer that depressed consumption and devastated the rice harvest undercut all hope. What's more, most analysts didn't take full account of the structural problems that have since come to light.

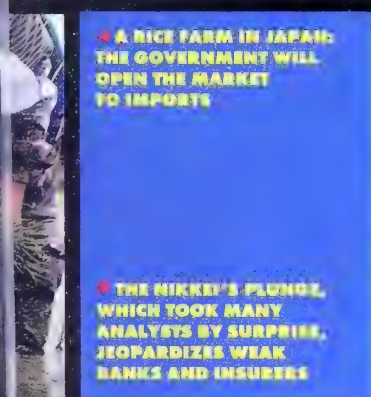
Now that these problems are exposed, Japan's officials are hoping the current turmoil will help them reshape Japan Inc. for the next century. Key ministry officials know that corporations and banks must be modernized to cope with a slower-growth future and tougher global competition. They want more market-opening measures and deregulatory steps, as evidenced by Hosokawa's compromise on importing foreign rice. Where appropriate, the government is also using its fragile position to fend off

**"THERE'S NO
PROSPECT FOR
IMPROVEMENT,"
SAYS A PLANNING
AGENCY OFFICIAL**





JOBLESS IN TOKYO: AS COMPANIES TRIM STAFFS, THE HIDDEN UNEMPLOYED BECOME MORE VISIBLE



▲ A RICE FARM IN JAPAN: THE GOVERNMENT WILL OPEN THE MARKET TO IMPORTS

◆ THE NIKKEI'S PLUNGE, WHICH TOOK MANY ANALYSTS BY SURPRISE, JEOPARDIZES WEAK BANKS AND INSURES

trade pressures and plead for relief from the high yen.

One of the biggest problems facing Corporate Japan is its bloated work force. Saddled with 6% redundant workers, companies are starting to take drastic measures. They are moving production overseas, slashing the number of contract workers, and shutting down production lines. While many people in corporate circles insist that there will be no mass layoffs, the unemployment rate could almost double within three years to about 5%, says Paul Summer-ville, director of Asian research at Lehman Brothers Japan Inc.

Meanwhile, Japanese "salary-men" are finding themselves forced into demeaning early retirement or transfers to lower-status jobs at their companies' subsidiaries. College students, long used to lavish attention from prospective employers, now find chilly receptions.

EARLY RETIREMENT. All this is generating a crisis of confidence worse than anything in the postwar era. "I don't know how I'm going to get through the first quarter of next year," confides a Japanese publishing executive. The strong yen is giving managers fits. "It gets to the point where all the work we do is aimed at nothing but making up for the rising yen," says Tsuzo Murase, an executive vice-president at Matsushita Electric Industrial Co.

The situation could hardly be more explosive for Hosokawa, who took office in August at the top of a fractious, seven-party coalition government. Since then, he has concentrated on enacting the political reform that he was elected to accomplish. Hosokawa is making progress, and his public-support ratings are the highest in recent history. But as the government balks at acting on the economy until political reform is pushed through, many in the business community are growing restless. "There's a feeling that there's no one up there," says Geoffrey Barker, chief economist at Baring Securities (Japan) Ltd. in Tokyo.

In Japan's plants and labs, technology managers reflect similar concern. It's much tougher to pursue a copycat strategy in the new worlds of software and superhighways, where Japan now lags. "In the past, we always had somebody we could look to for ideas," says Koji Hase, a senior manager at Toshiba

Corp.'s Advanced Media Dept. "We could catch up." But in the coming four to five years that will be difficult, he says. Hase frets that Japan's stultifying educational system "kills" the kind of creative thinking that's required to move into the digital, multimedia future.

Worse yet, in their scramble to cut costs, Japan's beleaguered manufacturers are scrutinizing research and development programs they once regarded as lifelines to the future. Over 42% of companies responding to a poll taken last

JAPAN'S TROUBLES ARE MOUNTING...

LABOR High wages and large numbers of redundant workers are raising costs to corporations

TECHNOLOGY Japan Inc. lags in many strategic industries that are likely to be key in the 1990s, such as information highways, software, and systems integration

COMPETITIVENESS The high yen is hurting exporters such as Honda and Nissan, and low-priced imports such as Compaq and Dell PCs are challenging local giants such as NEC

NIKKEI The Nikkei stock index has dropped 19% since September, placing even more pressure on banks

CONFIDENCE A poor rice harvest, political uncertainties, and falling incomes are adding to pessimism about the nation's future

... BUT UNDERLYING STRENGTHS REMAIN

LABOR The work force is well-educated, disciplined, and highly skilled

SAVINGS Consumers are still saving at a rate of 15%, consumer debt is low, and the central government's budget deficit is tiny

MANUFACTURING Japan's manufacturers maintain their tremendous skills in miniaturization, automation, and quality control

COMPETITIVENESS Despite cutbacks, spending on research and development remains high

TRADE Surpluses with the fast-growing economies of East Asia are growing 23%, helping the overall trade surplus climb to \$120 billion

summer by Japan's leading business daily, the *Nihon Keizai Shimbun*, said they intend to reduce the number of research themes they pursue this year. Only 16% planned to expand such programs. For the fiscal year ending next March, Hitachi Ltd. is plowing 6% less money than last year into next-generation chip designs, computer systems, and telecommunications. Toshiba's R&D budget is down 2%, and Fujitsu Ltd.'s by about 14%.

Many of these electronics companies sit awestruck at the speed with which

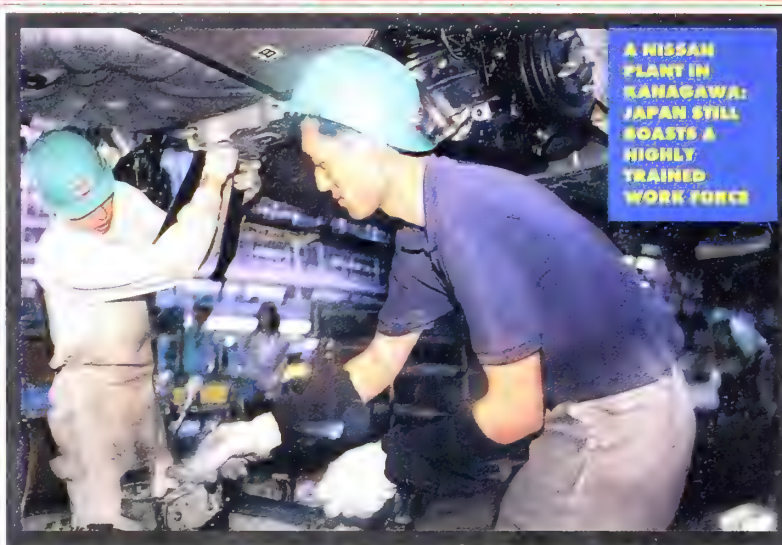
International Business

multimedia information highways are coalescing in the U.S. Although Japan for years has been planning an optical-fiber network that would serve a similar purpose, investment has been delayed. Meanwhile, government regulation has stymied the proliferation of everything from pocket phones and computer networks to cable and satellite broadcasting. Local suppliers of such products are therefore at a global disadvantage.

With the world's next big high-tech push coming in the integration of telecom, information, cable TV, and entertainment, U.S. companies from Bell Atlantic to QVC Network Inc. seem to be in the driver's seat—just as the Japanese were in the 1980s revolution in miniaturization, automation, and quality. If the U.S. controls ideas, software, and systems, the Japanese could be little more than second-tier hardware suppliers. On another front, incursions by low-priced U.S. personal-computer makers into Japan have thrown pricey Japanese competitors for a loop. Desktop PCs from Japan haven't made a dent in overseas markets, and they're heavily dependent on American software.

LITTLE TO DO. While U.S. exporters such as Compaq Computer Corp. and Dell Computer Corp. are reaping the benefits of *endaka*, or the high yen, it is saddling Japanese exporters with high labor costs. As working hours contract and the work force ages, unit labor costs in Japan have been spiraling. Last year, they rose by 8%, according to the Organization for Economic Cooperation & Development. Lower-cost competitors such as South Korea, Taiwan, and even the U.S. are snapping at the heels of Japanese makers of semiconductors, autos, and steel. "Mass producing things cheaply isn't enough to assure our survival," says Shojiro Asai, general manager of Hitachi Ltd.'s Advanced Research Laboratory. "Japanese companies aren't the only ones who know how to manufacture."

Although Japan's official jobless rate of 2.7% remains far below those in the West, the scope of "hidden" unemployment is becoming more visible every day as



companies announce major work-force trimmings. Japan's unofficial lifetime employment system prevents wholesale layoffs. So superfluous workers are being shunted off to affiliates, where they often have little to do, in order to remove their labor costs from the parent company's bottom line. In recent months, 20 major companies have announced plans to shed 74,000 employees during the next two to three years through attrition, reduced hiring, and outplacement. That represents 10% of their current payrolls.

Still, Joseph L. Raudabaugh, vice-president at A.T. Kearney Inc. consultants in Tokyo, estimates that more than 4 million "underemployed" workers may be embedded in the system. Virtually all of these are in the white-collar ranks, dragging down productivity and fueling labor costs. While overall productivity in Japan is almost 25% lower than in the U.S., Japanese labor costs are 14% higher than those in America. Already, companies such as Sanyo, Honda, and Nippon Steel have begun restructurings. They are reorganizing in a host of ways to define authority and responsibility more sharply, shift staff workers to line jobs, consolidate headquarters functions,

and move even more production abroad.

On top of all this stress, other recent events have contributed to an erosion of confidence among ordinary Japanese. Reductions in overtime and bonus cut growth in total compensation per employee to 2% last year, against more than 4% in 1991, according to the OECD. This year looks to be worse. The result: Consumers are saving, not spending. "When I'm with my friends, the talk is always about gloomy things," says Atsuhiko

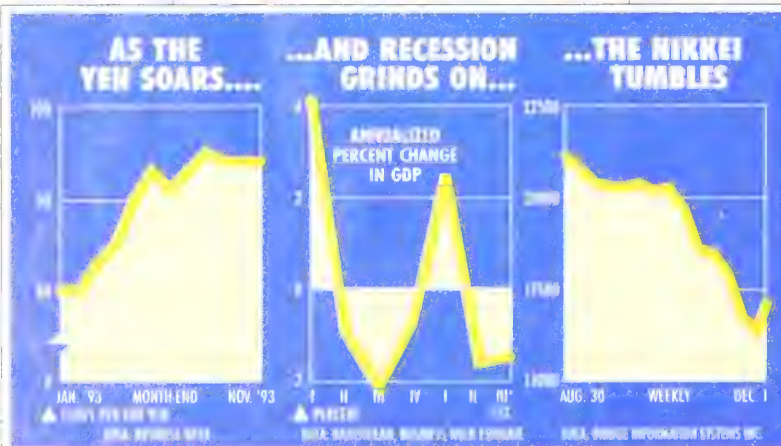
Ohsaka, a general manager at Asahi Bank. "They all wonder whether their own firm can turn around."

Making many Japanese feel yet more vulnerable is the bureaucrats' failure to address the current crisis as adroitly as they have in the past. "The Finance Ministry doesn't seem sufficiently aware of this country's economic problems," says Yukiteru Azukizawa, a general manager at the Japan Department Stores Assn.

CUTTING TAXES? The government is finally responding. On Nov. 30, Finance Minister Hiroshi Fujii and Trade & Industry Minister Hiroshi Kumagai met under intense publicity to emerge with largely vague but promising talk of reform measures. This was enough to prop up the Nikkei index up 6% in two days. Among the good news was their call for a reduction of capital-gains taxes, property sales and other measures to perk up the moribund real estate market. The two ministers also agreed that next year's budget should include further stimulus measures.

At the same time, the Hosokawa government appears to be moving toward cutting steeply progressive income taxes. The system's current top rate is

Until recently, a \$400 million cut, or about 1% overall, was expected. But Asahi Bank says such a reduction will boost gross national product by only 0.1%—barely enough to offset growth at zero a year. The conventional wisdom is that it will take \$93 billion to get consumers out of their battered-down mentality. But now \$65 billion to \$74 billion seems



likely. Economist Takashi Oshio at San Guaranty Trust Co. in Tokyo says that would help underwrite a pallid gain in GNP next year.

Cutting is only a start, of course. Bank of Japan in coming weeks is likely to cut Japan's record-low 1.75% annual Discount Rate by 0.5% or so. That should ease pressure against the yen and stimulate bank lending. The Finance Ministry is also discussing a plan to let banks securitize their bad debts and sell them to investors, as the U.S. did in the face of its late-1980s banking crisis. And Finance still has at least \$9.3 billion left from last year's stock-market-price-keeping operation" to prop up the Nikkei index, says Baring's Barker.

Finance Minister Hosokawa gets political reform under his belt and attacks the economic downturn with short-term measures, he's bent on enacting sweeping deregulation of everything from airfares to breweries to the financial system and land policy. That won't be easy, of course. Hosokawa hopes that he can open up many sectors of the Japanese economy to more foreign competition despite protection from vested interests. In the long run, that should help modernize an economy hobbled by inefficiencies, barriers and rules. Yet it will almost guarantee some pain, as bankruptcies, falling profit margins, and concerns about the future are likely to increase.

TO REBUILD. When does rebuilding end? It's important to remember that the current recession isn't destroying the country's economic base. But it would wipe out obsolete industries such as over-regulated cartels, seniority-based pay scales, and counterproductive policies. Ultimately, that could help Japan to rebuild on its core strengths, including its highly educated workforce, state-of-the-art plants, high savings rates, and government-business cooperation.

Technology, Japanese companies remain key players at almost every level of the U.S. information superhighway. While bemoaning America's lead in telecommunications, Japanese companies have exported \$15 billion worth of television and radio equipment last year. And they were high-speed digital switchgear will be the backbone of the U.S. information superhighway. And the Japanese will be major "content" suppliers. Sony Pictures and Matsushita Electric Industrial Co.'s Universal Studios.

At the same time, companies have begun addressing their labor costs, mainly by shifting production overseas with breathtaking speed. At home, they're reducing part-time workers and cutting wage increases to the bone. As a result, growth in unit labor costs in manufacturing has declined to 2%, according to the OECD, and continues to fall.

Companies also have a government-supplied cushion to fall back on while they restructure. The state now pays a part of redundant workers' salaries to keep them on the payroll. Last year, the government spent \$30 million on subsidies for underemployed workers, but this year the budgeted amount has soared to about \$700 million. Currently,

are over. Instead, the gap between winners and losers will grow larger. There will be shakeouts in the auto and cable industries. Low-tier suppliers will be wiped out as manufacturers diversify supply channels and import more parts and materials from lower-cost countries. "Japan will become an importing superpower," predicts Lehman Brothers' Sumner. Deregulation will gradually break down rigidities and open the economy up to newcomers. Markets will force companies to accelerate their restructuring.

While this will all engender pain, the efficiencies it brings will enhance Japan's competitiveness. And foreigners needn't worry that Japan will disap-



4.2 million workers are covered by the program. Thanks to the still-intact cross-shareholding system, companies remain less exposed to profit demands from shareholders and can more easily absorb the costs of redundant employees.

Finally, Japan's business and government leaders are skilled crisis managers. Overstating Japan's problems to foreigners buys time on festering trade issues. A head-knocking shock that scares the daylight out of Japanese workers and injects a new sobriety into corporate Japan is exactly what younger bureaucrats and politicians want to rally the nation for the next stage of rebuilding.

There's no doubt, though, that the days when almost all Japanese could enjoy a piece of the economy's gravy train

appear as a source of liquidity for the world. While its current-account surpluses and savings rate look bound to decline, they will remain high by world standards.

Just as fears of Japanese economic predominance in the '80s were exaggerated, so too is any notion that Japan is now in danger of collapsing. The younger bureaucrats and politicians coming into power are facing up to Japan's structural problems. If they prevail, the special brand of capitalism that propelled Japan in the postwar era will be modernized, not abandoned. This ability to manage difficult transitions will make Japan a force to reckon with for years to come.

By Robert Neff, with Neil Gross and Larry Holyoke, in Tokyo

As a famous coach once said, "A football does not a touchdown make?"

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MEXICO: WILL COLOSIO BE A KINDER, GENTLER SALINAS?

It's a political drama Mexicans watch with a mixture of fascination and dismay every six years. A half-dozen Cabinet ministers spend a year under intense public scrutiny, as each feigns nonchalance at the chance that *el Señor Presidente* might pick him to run as the ruling party's presidential candidate. When the ritual *destape*, or unveiling, of the President's choice occurs, the chosen one is elevated to demigod status. The awesome machinery of the ruling Institutional Revolutionary Party (PRI) roars to life and propels the candidate toward an almost certain victory in elections that have been mostly a formality over the past 64 years.

Such is the ritual-laden process that has served the PRI's needs well. Now, as Mexico moves toward the 21st century, craving acceptance as a fledgling member of the First World, such traditions are under pressure. The PRI's new candidate, Luis Donaldo Colosio Murrieta, seems to understand that times are changing, especially now that Mexico and the U.S. are in a tight continental embrace and Americans are scrutinizing Mexico as never before. Says Jeffrey Schott, an economist at the Institute for International Economics in Washington: "The U.S. will be watching to see how well the new President can meet the commitments in NAFTA and to his own people."

Just before his nomination, Colosio, 43, told *BUSINESS WEEK* that political reform would be an "undeniable top priority" of the next Administration. Then, in his acceptance speech, he broke new ground, calling for a public debate among all presidential candidates. And while he pledged to continue President Carlos Salinas de Gortari's economic reforms, he also promised to place greater emphasis on social programs that could help raise up Mexico's poor.

GOOD OLD DAYS. But one wonders how profoundly he intends to reform a system designed to perpetuate his own party's rule. After all, as party president, Colosio himself helped bring the PRI back from the brink after the 1988 election, when Salinas barely squeaked into office amid charges of fraud. Colosio worked to mend the PRI's divisions and nurture strong regional leaders. To an extent, he succeeded: The PRI rebounded in the 1991 midterm elections. But he is well aware of the growing clamor for clean elections. Since 1990, charges of fraud by the increasingly vocal opposition have forced out three PRI victors in state gubernatorial elections.

Colosio's most formidable challenge in the election scheduled for Aug. 21, 1994, will come from Cuauhtémoc Cárdenas Solórzano, the son of legendary President Lázaro Cárdenas,

who nationalized Mexico's oil industry in the 1930s. Many Mexicans believe Cárdenas was the true winner in 1988. But this time around, the 59-year-old politician is groping for a compelling issue to fire up his so far feeble campaign as the standard-bearer of the left-leaning Democratic Revolutionary Party (PRD). Even so, Cárdenas symbolizes a Mexico that many people long for, a time when nationalism made sense and the challenges of globalization were still to come.

The other serious opposition party, centrist National Action Party (PAN), has little dispute with Salinas' free-market reforms but, like the PRD, intends to press vigorously for free elections. Candidate Diego Fernández de Cevallos, 52, a lawyer and congressman, says he harbors no real hopes of winning

but wants to offer Mexicans a choice. So, aiming at the PAN's weakest flank, the PAN will campaign on the theme of redistributing income in Mexico more equitably. Indeed, during Salinas' term, the number of Mexico's billionaires jumped from 2 to 13. And the rich 10% of the population hoarded its share of national wealth from 33% to 41.4% over the past five years, while the share held by the poorest 40% shrunk from 15% to 12.3%. To win back voters, the PRI must convince them that their share is forthcoming.

WATER WORKS. That is why Salinas' decision to groom Colosio for the presidency by putting him in charge of social development was so savvy. The economist with a master's degree in urban planning and regional development from the University of Pennsylvania, Colosio for the past 20 months has overseen Salinas' Solidarity



COLOSIO RAN THE \$2.6 BILLION ANTIPOVERTY PROGRAM

program, which organizes and finances self-help projects across Mexico's poor *pueblos*, or villages. With a \$2.6 billion annual budget, Solidarity installs water and sewer systems, finances schools and hospitals, and pays stipends to families they will send their children to school, not to work. In charge, perhaps correctly, that Solidarity is largely a political tool to cement the PRI's power. But Salinas, whose clout soon begin to erode, is counting on the program to secure his place in the history books as a socially conscious leader.

Salinas looks like he'll be the first President in two decades to leave office on a high note, with a free-trade treaty in place and finances in tip-top shape. He leaves his successor two substantial tasks: lifting millions of Mexicans out of poverty and into schools and better-paying jobs while opening up the economy. If, as is likely, Colosio prevails, that's an agenda that will test his much touted political skills.

By Geri Smith in Mexico

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aviation
what the
Japanese
did
for the
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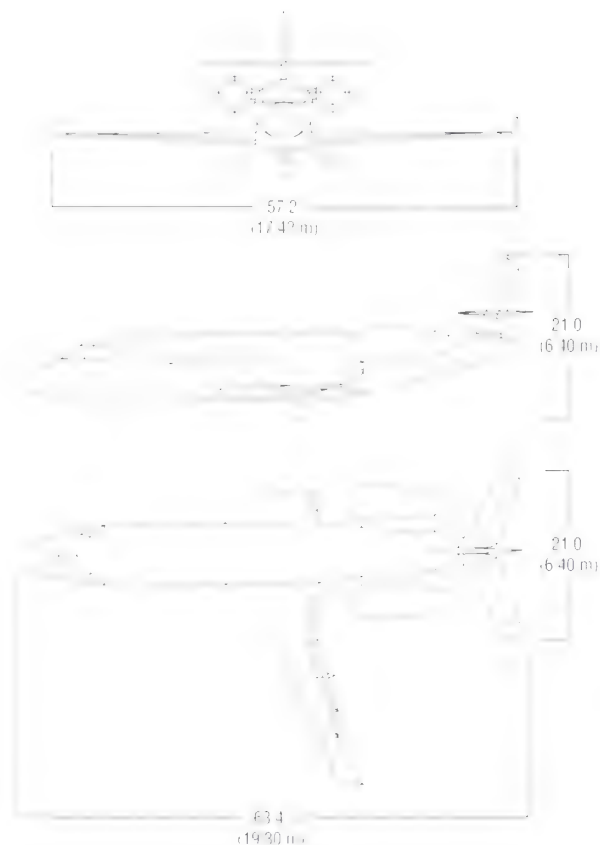
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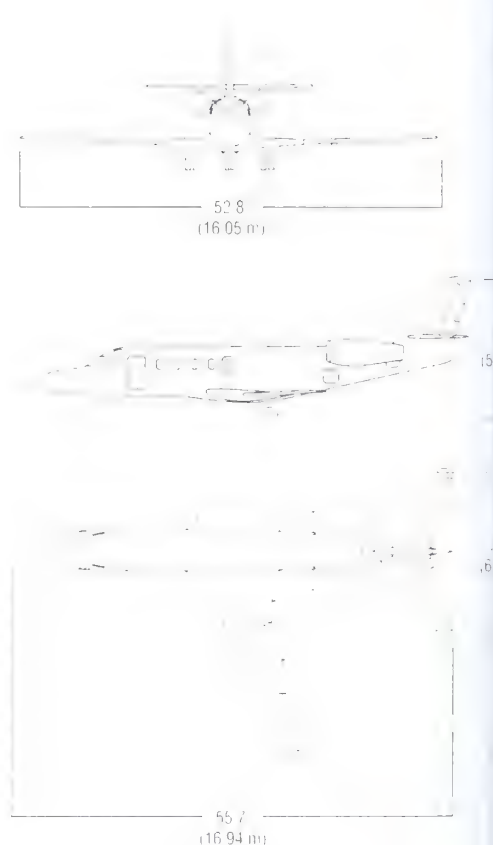


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Justice open foreign markets?

When Diane P. Wood, a top U.S. trustbuster, tried at a November meeting in Tokyo to persuade her Japanese counterparts to be more "proactive" in enforcing U.S. antitrust laws, all she got were stares. Fearing something had been lost in translation, she tried other approaches, such as "take the initiative" and "work yourself."

Wood, Deputy Assistant Attorney General for international antitrust, still believes if the Japanese got the message. But soon it will be crystal clear. If officials in Japan, the European Community, and elsewhere are willing to crack down on practices that illegally keep U.S. companies out of their markets, Wood says she will do it for them. "They have to understand there's a point where it's our ball," she declares. The 43-year-old University of Chicago law professor says the Justice Dept. is preparing to bring cases against foreign companies that limit U.S. entry into their markets.

OF A MESS. The get-tough approach against foreign companies enjoys support from U.S. trade negotiators as well as from industries long frustrated by the failure of traditional trade policies, such as dismantling tariffs, to open overseas markets. U.S. companies cannot pry open many Asian and European markets because local protectionist practices and industry structures shut them out. "The extraterritorial application of antitrust laws is the answer," says

William J. Regan, president of Inc.'s Government Affairs. "I see no way out."

so, Wood's mission is fraught with legal obstacles. American antitrust laws extend to foreign trade in international commerce.



TRUSTBUSTER WOOD:
"THERE'S A POINT WHERE IT'S OUR BALL"

panies and governments could snub U.S. efforts to obtain critical documents and witnesses. Following an attack by U.S. companies on a global uranium cartel for alleged collusion in the late 1970s, many countries—among them France, Canada, and Britain—passed laws barring companies from complying with U.S. document requests. "It's going to be a hell of a mess," says Washington antitrust lawyer Joel Davidow. And even if Justice does get incriminating evidence, it will be difficult hauling foreign companies into U.S. courts unless they have a U.S. branch or subsidiary.

Worse, governments could retaliate against U.S. exports. Many foreign authorities contend that the U.S. cannot impose its rules on foreign soil. Extraterritorial enforcement is "contrary to

basic principles of international jurisdiction," says Masaru Matsuo, a spokesperson for the Japanese Fair Trade Commission (JFTC).

In spite of such formidable hurdles, Wood and her boss, Assistant Attorney General for Antitrust Anne K. Bingaman, have already launched probes of complaints

from U.S. makers of autos, glass, and steel, according to industry sources. U.S. glassmakers, for example, allege that a three-company oligopoly in Japan has shut them out of that \$4.5 billion market by barring their captive distributors from selling imported glass. The trio has kept a constant market share since the end of World War II, with Asahi Glass at 50%, Nippon Sheet Glass at 30%, and Central Glass at 20%.

LITTLE HELP. Guardian Industries Corp. in Northville, Mich., has given Justice plenty of fodder to pursue alleged anti-competitive practices of Japanese glass manufacturers, including names of Japanese insiders the company says will reveal details about monopolistic behavior.

Company officials have handed over a 1991 letter to Guardian from a would-be Japanese customer canceling an order because of pressure from the big glassmakers. Guardian has also provided Justice with a 1987 memo from the Japanese Flat Glass Installers Assn. threatening retaliation against

ANTITRUST: A TRADE WEAPON

GLOBAL ENFORCEMENT The search is on to find a case to bring against a foreign company whose violation of U.S. antitrust laws hurt American consumers and exporters. Some potential targets: auto makers, the steel industry, glass manufacturers.

BILATERAL TALKS Justice is pressuring foreign antitrust authorities to beef up local enforcement.

WORLD AGREEMENTS The U.S. and the Organization for Economic Cooperation & Development are joining forces to put global antitrust issues at the top of the agenda for the next round of GATT talks.

LEGISLATION The Justice Dept. is drafting legislation that enables U.S. and foreign antitrust agencies to share confidential information about ongoing cases.

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Legal Affairs

Japanese companies that do not glass from the glassmakers that are associated with the Japanese conglomerates Mitsubishi, Sumitomo, and M Asahi Glass denies any wrongdoing. "There's no intimidation whatsoever," says Yasuhiko Furukawa, a aging director at the company.

So far, the U.S. has seen few that the Japanese will offer much though they have stepped up enforcement. The JFTC has brought one case a year since 1991. The last case before that was in 1973. And though believes evidence of abuses supports more actions, Tokyo disagrees. studies of the glass and auto industries for instance, found no illegal behavior by Japanese companies. U.S. companies call the studies whitewashes. "We into a wall of exclusionary business practices, including threats and intimidation," says Peter J. C. Young, special assistant to Guardian Industries' president.

FULL SUPPORT. If the Justice Dept. up bringing a case, it would be sweet revenge for Wood. While serving as a justice consultant on international antitrust policy from 1985 to 1987, she clashed with Reagan Administration officials who wanted to narrow the scope of antitrust laws. In fact, guidelines issued by Reaganites barred federal suits against foreign companies for violations unless they hurt American consumers. The Bush Administration's chief antitrust buster, James F. Rill, dropped that policy in 1992 and allowed cases in which U.S. exporters are hurt. But Wood may be the first actually to bring such a case. And she is rewriting the Reagan-era guidelines on international enforcement. She backs aggressive initiatives including the prosecution of vertical restraints such as retail prices set by manufacturers.

Wood has the full support of her man, who brought the uranium-price case as a private lawyer 15 years ago. In a major policy address in October at Fordham Law School, Bingaman described the antitrust laws as a "traditionally useful means of protecting national interest where private cartels tend to close foreign markets."

But Justice hasn't given up on its policy just yet. By the next round of trade talks with Japan, scheduled for July, Wood wants to persuade Tokyo to let private parties bring antitrust suits and allow U.S. companies to join Japanese trade associations, where enforcement of the rules of the market are easier. Should Japan—or any other country—resist her requests, the next move could be in a U.S. courtroom.

By Catherine Yang in Washington and William Spindle in Tokyo

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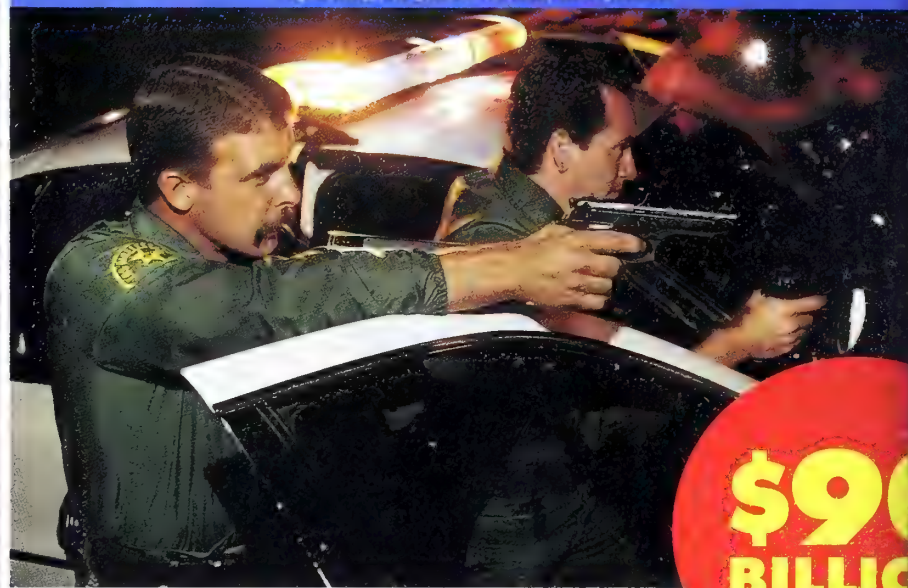
THE U.S. DEPARTMENT OF COMMERCE,
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WHAT CRIME IS COSTING US EVERY YEAR

BUSINESS WEEK totes up the financial damage to society—not to mention the misery crime leaves in its wake

CRIMINAL JUSTICE

Spending on police, courts, and prisons



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THE ECONOMICS OF CRIME

THE TOLL IS FRIGHTENING. CAN ANYTHING BE DONE?

Americans are scared. The fear of crime permeates their lives. They worry about being mugged or raped in a parking lot or while walking home from work. They're afraid of being robbed at a highway rest stop or having their children kidnapped at a suburban mall. They put bars on their windows, alarms in their cars, and cans of tear gas in their pockets. And they should be frightened. All told, some 14 million serious crimes were reported to the police last year, a number that surely understates the actual magnitude of America's No. 1 problem.

But the daily reality of muggings and murders that make the headlines and

TV news shows is hurting the public in a far different, yet no less destructive, way. Crime in America is exacting an enormous economic toll on the nation—far bigger than anyone realizes.

New estimates by BUSINESS WEEK show that crime costs Americans a stunning \$425 billion each year. That figure comes from a detailed analysis of all of the direct and indirect costs of both property and violent crimes, from emergency-room care for a mugging victim to the price of a new alarm system for a home to the income lost to the family of a murdered cab driver.

Human misery aside, from a purely dollars-and-sense perspective, the U.S.

isn't devoting enough resources to the fight against crime—and is frittering away many of the resources it is using. The U.S. spends some \$90 billion a year on the entire criminal-justice system. That includes \$35 billion for police protection, less than the country is spending on toiletries each year. Indeed, anti-crime policy over the years has been a series of quick, cheap fixes: New prisons are being built, but the number of police has barely kept pace with the growing population. Meanwhile, economic and social programs that could quickly bring down crime have been largely ignored.

Even the spate of crime-fighting legislation going through Congress falls far

PRIVATE PROTECTION

Spending on alarms, private guards, and security systems



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BILLION**

of what is needed. The Brady Bill, signed into law, simply requires a waiting period for the purchase of guns. And the highly acclaimed crime bill recently passed by the House would add a meager \$4.5 billion to the total criminal-justice spending.

LENCE. Why is the nation underfunding on crime-fighting? The public still believes that there's little more we can do short of putting the Army on every street corner. Some have blamed crime and violence on the decline of "family values" or the loss of inner-city manufacturing jobs, neither of which can be solved by government action. Most recently, excessive violence on television has been fingered as a key culprit by Attorney General Janet Reno and Surgeon General M. Joyner.

Economists, on the other hand, view crime as a choice that can be influenced by changes in incentives and rewards. Recent research by economists shows that higher levels of spending, if directed, can make a dent in crime. Crime can be reduced by increasing what economists call the "ex-ante punishment"—the cost of prison time

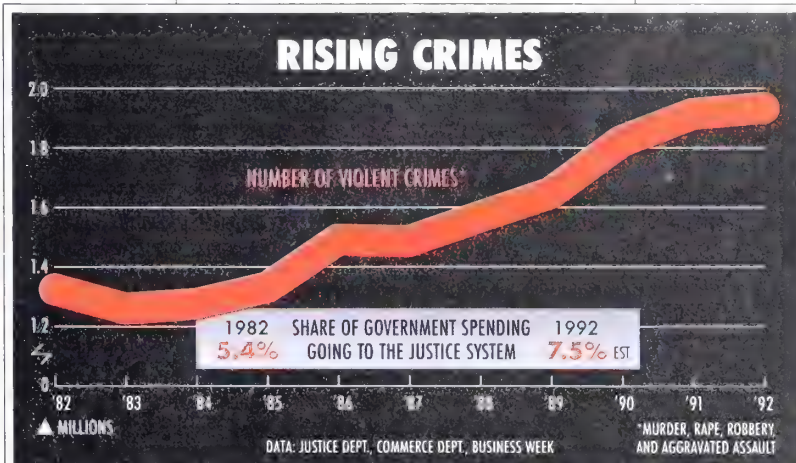
served for a crime, adjusted for the chances of being caught and convicted. Today, the expected punishment for committing a serious crime is only about 11 days—half what it was in the 1950s. At the same time, job prospects for young adults and teenagers have soured, lowering the economic rewards for staying straight. "Criminals are sensitive to incentives," says Morgan O. Reynolds, a Texas A&M University economist who studies the economics of crime. Adds Ann Witte, a Wellesley economist: "The carrot can work, and the stick can work."

What's needed is a cost-effective way of raising the punishment that potential criminals can expect, argue these economists. That means the U.S. needs

to devote many more resources to every aspect of law enforcement, not just prisons. That means more police on the streets, tougher sentences for young criminals, and closer monitoring of criminals on probation.

At the same time, it's crucial that the U.S. boost spending for job training and other programs in order to give teenagers and young adults better alternatives to crime. Typically, these programs are cheaper than the \$20,000- to \$30,000-a-year cost of imprisonment. "We will never be able to afford enough prisons if that's our only approach to the criminal-justice problem," says Stephen Goldsmith, the Republican mayor of Indianapolis and a district attorney for 12 years. "You have to give people some hope for jobs and housing."

Such sentiments are far more common today than they were just a few years ago. In the 1980s, politicians were quick to call for longer, harsher sentences for all types of crimes. And one of the most damaging labels for a local politician in those years was "soft on crime." Yet for all the harsh rhetoric, few additional resources were devoted to



URBAN DECAY

Cost of lost jobs and fleeing residents



**\$50
BILLION**

fighting crime on the streets. Spending on prisons and the judicial system soared in the 1980s, but the number of police per 10,000 people barely rose. Indeed, in the second half of the decade, the total number of state and local police increased by only 16%, while the number of violent crimes jumped by 37%.

Now, fiscally strapped local officials find themselves begging for federal help and admitting defeat. District of Columbia Mayor Sharon Pratt Kelly unsuccessfully sought to deploy National Guard troops on the capital's streets, saying: "We're dealing with a war, yet people don't seem to want to win this war." After 300 stores were robbed and 52 people killed during hold-ups this year, Kelly's police chief recently suggested that a good way to cut crime was to close stores earlier.

The analogy to war is a good one. By BUSINESS WEEK's calculation, the real cost of violent and property crime—when properly totaled up—far exceeds the \$300 billion defense budget. Spending by businesses and consumers on private security alone—including alarms, guards, and locks—comes to some \$65 billion, according to William Cunningham, president of Hallcrest Systems Inc., a McLean (Va.) security-industry consult-

ing firm. "People are more fearful, and they're taking a greater stake in their own protection." This has turned into a bonanza for companies such as Winner International Corp. in Sharon, Pa., which engineers and markets The Club, a steering-wheel lock to discourage auto theft. From 1990 to 1992, Club sales grew from \$22 million to \$107.3 million.

But Winner's bonanza is just another burden for business and consumers. "I call this the 'security tax' that business now has to pay because government hasn't been able to make us feel safe at home, work, or play," says Frank J. Portillo Jr., chief executive of Brown's Chicken & Pasta Inc., a 100-store fast-food chain based in Oak Brook, Ill. He had to install security cameras and hire guards for some of his stores in rougher neighborhoods after seven employees were massacred on Jan. 8 at a Brown's Chicken outlet in Palatine, Ill.

The security tax hits urban areas particularly hard. According to BUSINESS WEEK's analysis of FBI crime statistics, most large cities have violent crime rates from two to seven times higher than their suburbs. As a result, many businesses and residents of crime-prone areas move to safer surroundings. That

can quickly become a perpetuating cycle, since as jobs go out, the area becomes even more hopeless for the people who remain. BUSINESS WEEK estimates that the damage to large urban economies from high crime rates is about \$50 billion.

MIAMI VISE. Because of Miami's dependence on tourism, it is probably the urban area facing the clearest threat of crime. The city "has two problems," says Joseph P. Lacher, president of Miami-based Southern Bell-Florida and chairman of the Greater Miami Chamber of Commerce. "We have a serious problem to deal with and an even more serious perception of crime." Dade County, where Miami is located, has one of the highest crime rates in the country. People are scared to come to Florida, says Roberto Willimann, owner of Specialized Travel Systems, a Miami travel agency that caters to Germans. Hipness fell to about half of last year's level after the Sept. 8 murder of a German tourist.

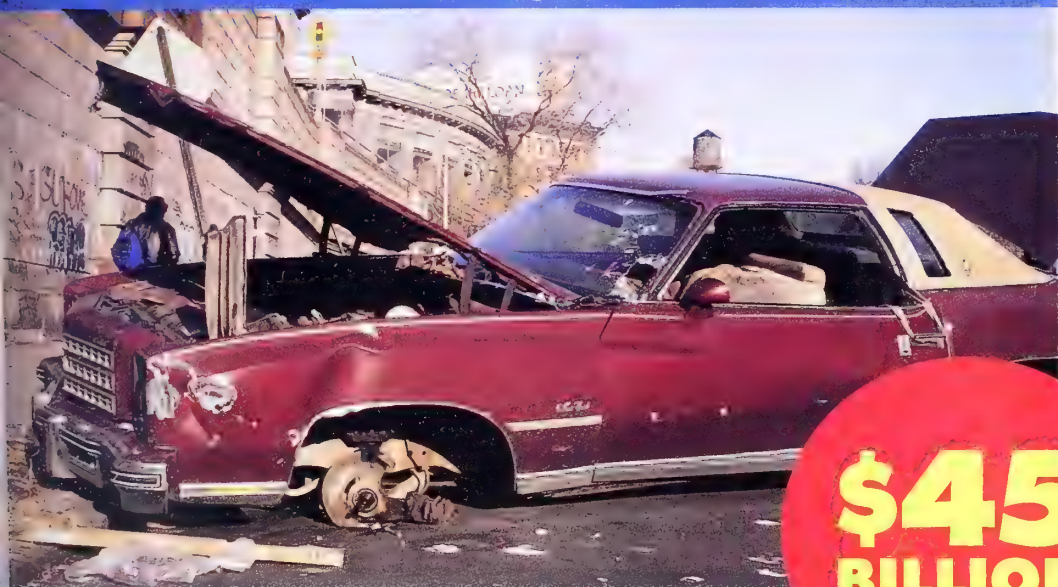
But crime's most devastating impact is measured in more than lost jobs and added security costs. The victim of a mugging or a rape carries the physical and emotional scars for years. Moreover, the damage to friends, family, and society from every murder is enormous.

Economists are able to measure the economic value of such intangible costs of violent crime using techniques initially developed for the cost-benefit

**THE
BEST
DETERRENT
IS THE
SIMPLE
PRESENCE
OF POLICE**

PROPERTY LOSS

Value of stolen goods



**\$45
BILLION**

safety regulations. According to published estimates by Ted R. a health-and-safety economist at al Public Services Research In- in Landover, Md., and two col- s, the value of a human life cut y murder is about \$2.4 million. stimate the economic damage of a o average about \$60,000, while ical robbery or assault costs more 20,000. With more than 20,000 rs committed each year plus 2 other crimes of violence, the so- intangible damages come to a umping \$170 billion, says Miller co-authors.

merica really wants to bring down crime, there's simply no way of cheaply with a problem of this ude. "If you are going to have ct, you have to spend a lot of

money," says Wellesley economist Witte.

But in a time of belt-tightening, it's essential to make every dollar as effective as possible. The ultimate goal is to reduce the incentives for criminal behavior. "We need the positives from participating in the legitimate economy to go up and the negatives from participating in the criminal economy to go up," says Goldsmith. "We've got the mix exactly backward."

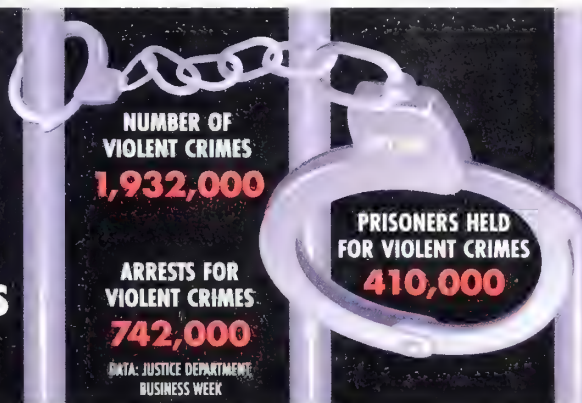
DIMINISHING RETURNS. Spending on corrections has quadrupled over the past decade, rising far faster than spending on police or the courts. In part, that has been because of court-ordered upgrades of existing prisons, but actual incarcerations in state and federal prisons have tripled since 1980. And some economists, like Texas A&M's Reynolds, believe that this prison boom has helped

boost expected punishment a bit, keeping the crime problem from getting even worse than it already is.

But now the law of diminishing returns is setting in. Building and staffing prisons is extremely expensive, especially as sentences get longer and older inmates require increased medical care. Imprisoning a 25-year-old for life costs a total of \$600,000 to \$1,000,000. So putting someone in prison for life puts a huge financial burden on the next generation—just as a big budget deficit does.

For that reason, much of the additional spending on law enforcement should go toward beefing up police forces rather than building new prisons. Indeed, evidence from economic studies shows that putting more police on the front lines has more of a deterrent effect

**ARREST
AND
PRISON:
WHAT
HOPIING
WITH
CRIMINALS
COSTS**



ALL ARRESTS
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**AVERAGE COST
PER ARREST***
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*POLICE AND COURT SYSTEM

ALL PRISONERS
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**AVERAGE ANNUAL
COST PER PRISONER**
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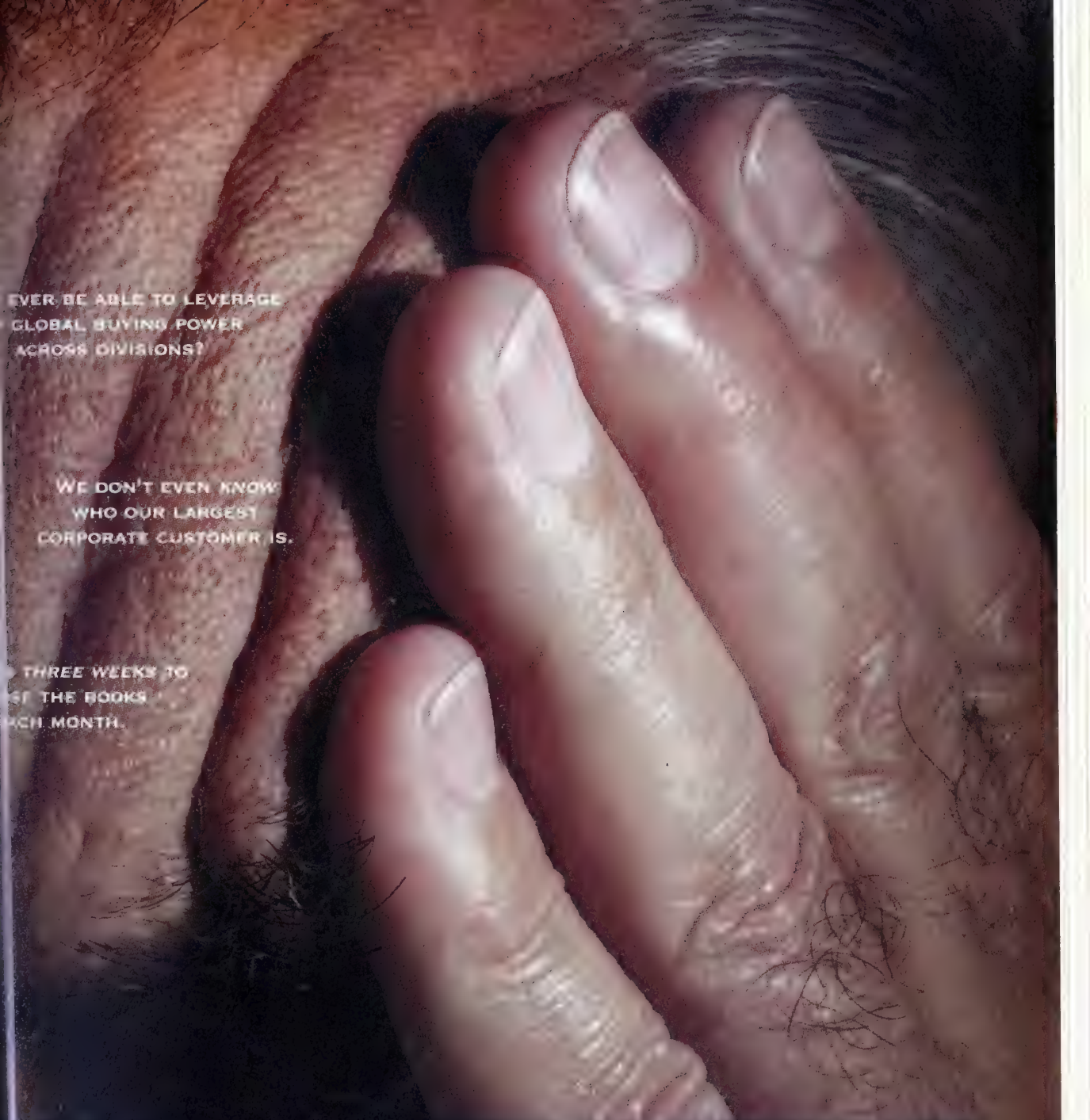
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than longer prison sentences. Explains Judge Richard Fitzgerald of Jefferson District Family Court in Louisville: "Most cops I know think that what really deters is the certainty of apprehension, not the sanction that would be imposed."

Even so, any concerted attempt to raise expected punishment will necessarily mean spending more on prisons. Every year, more than 60,000 violent criminals receive probation, largely because of overcrowding, according to Michael Block, a University of Arizona economist who was a member of the U.S. Sentencing Commission. That means one of the cheapest solutions to the crime problem, he says, is to "punish those people who are already captured."

FEW WORRIES. But the largest holes are in the juvenile-justice system. Violent-crime rates among young people have been rising far faster than among adults. "We are seeing juveniles committing more of the violent crimes at a younger age and with more destructive force and impact," says Judge Fitzgerald.

Part of the problem is that expected punishment for juveniles is very low. Young people often get little punishment for the first three or four felonies. "Juveniles have been getting the message that they can get away with anything," says Marvin Wolfgang, a criminologist at the University of Pennsylvania. Adds Mark A. Kleiman, an expert in the economics of crime at Harvard University,

ty: "It trains people to be criminals."

In addition, teenagers have little worry that crimes committed as juveniles will hurt them as adults. In most states, juvenile criminal records are permanently sealed. So a cost-effective way of identifying multiple offenders would be to unseal juvenile criminal records at the first adult felony conviction.

America's solution for dealing with illegal drug use has cost it dearly, too. In the 1980s, draconian sentencing laws were used to combat the drug problem, putting tens of thousands of people—and not necessarily the most violent ones—in prison. Currently, 60% of inmates in federal prisons and 20% of inmates in state prisons are there on drug

charges. That helped drive up spending on prisons without doing much to deter violent crime.

One alternative strategy to cutting down drug use and related crime is to monitor more closely the nearly 3 million convicts on probation. Kleiman argues that regular drug-testing of criminals on probation could dramatically reduce drug use, at a cost of perhaps \$5 billion annually. That can be combined with increased funding for drug-rehab programs like the one at DC General Hospital in Washington, which treats 900 patients each year at a cost of about \$1,800 per person. "Most people who are here are here because they can't handle the heavy pressure," says Kleiman.

A COST-EFFECTIVE PLAN FOR REDUCING CRIME

Removing the incentives for criminal behavior can make Americans safer. Here's how:

DATA: BUSINESS WEEK

1 IMPROVE ENFORCEMENT

Boost spending on police and courts by one-third, or \$15 billion, to make apprehension and conviction more certain. Increase spending on prisons and jails by 20%, or \$2 billion.

2 FOCUS PUNISHMENT

Release juvenile records at the time of an adult felony conviction so that law enforcement can quickly identify repeat offenders. Increase use of boot camps for youthful offenders.

ATTERED LIVES

economic value of lost and broken lives



**\$170
BILLION**

=

**\$425
BILLION**

DATA: DEPARTMENT OF JUSTICE, HALLCREST SYSTEMS INC., NATIONAL PUBLIC SERVICES RESEARCH INSTITUTE, BW

reduce the criminal activities of people you're testing."

by itself, increased enforcement it be enough to stem the tide of crime. "Short term, we need more and more aggressiveness in enforcement and prosecution," says Louisville Mayor Jerry Abramson, chairman of the U.S. Conference of Mayors. "But if a police officer gets involved, it's too late. The focus has to be not on catching criminals but on preventing criminals."

Moreover, giving young people alternatives to crime can multiply the effectiveness of the existing criminal-justice system. For every person not committed, police can concentrate more resources on hard-core criminals. For

example, if job training and education programs lowered the crime rate by 25%, that could mean an increase of as much as one-third in the expected punishment for lawbreakers.

Unlike many social programs, intensive training and education have already provided good evidence that they can reduce the crime rate. "Crime is a young man's game," says Witte. "Keep them busy and doing things that are not illegal, and they don't get in trouble."

For example, studies of the federal Job Corps, which is a residential program for basic education and hands-on vocational training, show a big drop in arrests for program participants. "There are few programs for young men that

we can document as working well," says David Long, a senior research associate at Manpower Demonstration Research Corp., a nonprofit research organization in New York. "The Job Corps stands out as strikingly effective."

A NEW WORLD. The key to the success of the Job Corps and similar private programs is providing kids with a whole new environment. That makes such programs expensive to run: A year in the Job Corps costs about \$22,000. Adding enough slots in these programs to make a difference could cost billions. About 650,000 juveniles were arrested in 1992 for violent and property crimes. To provide programs for half of them would cost about \$7 billion annually.

These programs are cheaper than the prisons they could replace, though. Average per-inmate cost for all juvenile facilities nationwide runs at about \$30,000 annually. That's far more than the yearly cost of a slot in the Job Corps. In some cases, the difference can be even bigger. Take City Lights School in Washington, with 100 inner-city adolescents, many of them violent juvenile offenders. According to Stephen E. Klingelhofer, development director at City Lights, the \$53-a-day cost is a bargain compared with the \$147 daily tab at Lorton Reformatory Youth Center in Lorton, Va. Treatment at City Lights can be as simple as setting a good example. "A lot of these kids have never seen anyone getting up in the morning and

RELATED CRIME

Send criminals on probation on a regular basis, which will help on repeat offenders. Focusing on drug rehabilitation.

TRAINING

Offers an alternative to crime by the size of the Job Corps, proven crime-reducing and funding for privately run education and training programs.

5 SUPPORT NEIGHBORHOOD SAFETY

Encourage a shift to community policing, which puts more cops on the street instead of behind desks. Use police to prevent problems, not just respond to emergencies.

6 LESSEN LEVELS OF VIOLENCE

Expand violence-prevention and conflict-reduction programs in the schools. Toughen federal gun control, and buy back illegally owned handguns in cities.

going to a job," says Klingelhofer. "A lot of them come here not knowing any other way to settle disputes than by violence."

More and more police departments are focusing on prevention as well. This new philosophy goes under the name of "community policing," which means reorganizing police departments to put more officers in the field and focusing on help-

ing neighborhoods prevent crime rather than just reacting to emergencies. That approach may include having more police out walking beats, working with social service and community agencies, and generally getting to know the residents. "We want to improve the quality of life in the neighborhoods," says Jerry Galvin, police chief of Vallejo, Calif., which has used community policing for

six years and seen violent crime drop by 33%.

If combined with organizational reforms, a shift to community policing need not mean a huge expenditure of new resources, advocates say. "Community policing has nothing to do with new officers or more money," says Kevin. "But you have to remake the department to make community pol-

AN ANGUISHED CRY OF 'ENOUGH' IN AMERICA'S KILLING FIELDS

Crime is an American tragedy, especially for blacks. African Americans are disproportionately both perpetrators and victims of criminal violence. Blacks make up almost half the country's prison admissions, and nearly one in four black men between the ages of 20 and 29 is in prison, on parole, or on probation. And homicide is the leading cause of death among black youths. Says Marian Wright Edelman, president of the Children's Defense Fund: "We lose more black men to guns in our cities in one year than we lost to all the lynchings after the Civil War."

Fear stalks inner-city streets. And in recent months, political leaders, ministers, and academics have all begun a crusade against crime, crying out to young black men to stop the violence. The Reverend Jesse Jackson rails against the lethal combination of guns and drugs in inner-city high schools. President Bill Clinton invokes the legacy of Dr. Martin Luther King Jr. in a plea to stop killing "each other with reckless abandonment." Increasingly, both liberals and conservatives are crossing racial and ideological divides to find common ground on policies that nurture families, support communities, create jobs, and provide more police protection in America's ghettos.

What's so discouraging is that black crime has become pervasive in many inner cities even as black politicians have gained power throughout the land, as the ranks of the black middle class have expanded, and as black high school graduation rates have risen.

CRIME PAYS. The reasons for the increase in violent crime are multifaceted, but the starting point is economic: The rewards for honest work for the less-educated have fallen, while the payoff for crime has risen. Urban jobs declined sharply beginning in the early 1970s, as foreign competition heated up. Inner cities began a downward spiral as work disappeared.

At the same time, explosive growth

in the drug trade and other illegal pursuits offered jobs and good money. A 1989 survey of youth crime in Boston shows that average hourly pay from crime ranged from \$9.75 to \$19 an hour (and no taxes), vs. the \$5.60 an hour that youths earned after taxes from legitimate work, according to Richard B. Freeman, an economist at Harvard University. "Essentially, what is happening is that wage and employment opportunities have declined dramatically, and opportunities in the criminal sector have grown," says Harry J. Holzer, an economist at Michigan State University.

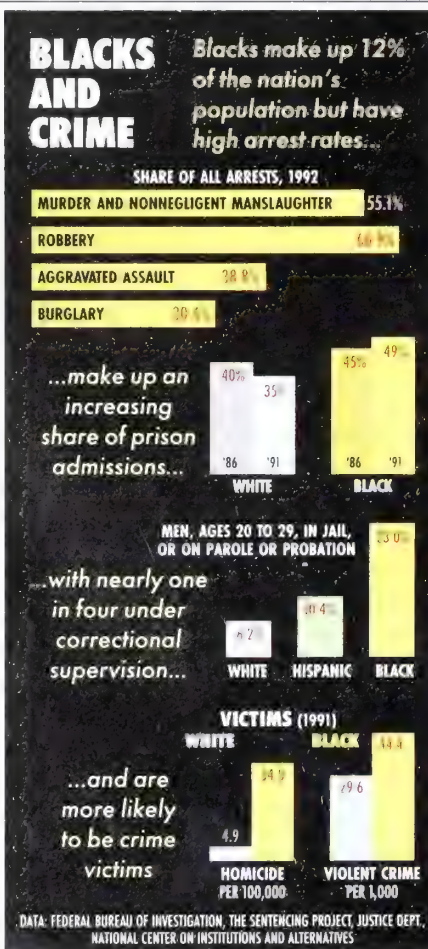
The sharp decline of the two-parent family is also part of the crime problem. These days, 56% of black families are headed by women, and the rate increases significantly in inner-city neighborhoods. A large part of the decline in marriage rates is traceable to male joblessness and extraordinary poverty levels. The welfare system encourages female-headed households, providing financial support to unmarried mothers. The upshot: Juveniles from single-parent families have a greater chance of being involved in crime—especially murder and robbery.

Young criminals are devastating many inner-city communities, throwing them into jail for short periods only seems to make things worse in the long run. When they return to their communities, they bring back the violent ethics of the cell block. Drugs, violent crime, and prisons are a part of everyday life. "If you haven't been arrested, you haven't gone through a rite of passage," says Marvin Dunne, a psychology professor at Florida International University.

FEW ROLE MODELS. The ecology of crime isolates inner-city communities in other ways. Few entrepreneurs or businesses in high-crime districts where they can easily become murder or robbery victims. Middle-class blacks have fled for safer streets, too. In racially segregated, poverty-stricken neighborhoods, young people are isolated from the work ethic, and informal networks of church and community groups are being drained of their most prominent middle-class members.

To make even a dent in the violence will require policies ranging from family support networks to more police. Most important, there must be jobs to compete with the lure of crime. Without jobs, high levels of violence in America's cities will continue, and with disproportionate black incarceration—and unimaginable suffering.

By Christopher Farrell in New York with bureau reports



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over Story

In Vallejo, 80% of police officers in the field vs. the national average of about 60%.

New Haven, Conn., has had the same experience. In early 1993, New Haven moved to community policing rather than just having officers answer 911

That required more police on the street. The solution: substitute civilian staff for police officers who used to pump out police cruisers and patrol billy clubs and clip. It's cost-effective as well. An officer costs about as much as a clerical worker and is much more expensive to train.

VICIOUS CYCLE. Part of what's about the latest wave is not just the number of guns but the brutality involved, especially the ramming of firearms. From 1990 to 1991, robberies increased by 27%, but the use of a firearm in a robbery increased by 49%. As a vicious cycle, crime is escalating. The number of guns in private hands, and the number of Americans search for protection. At Colt Manufacturing Co. in

Hartford, Conn., commercial handgun sales are running about 25% higher in 1993 than they were in 1992. "A whole gamut of industries are supplying the services that are being created by the crime statistics," says Colt Chairman R. C. Whitaker.

**THE
JOB CORPS
WORKS
—AND IT
COSTS A LOT
LESS THAN
PRISON**

Can this spiral of violence be broken? Certainly a federal law making handguns illegal would sharply decrease the number of guns being sold and make their street price much higher, though, like Prohibition in the 1920s or the war against drugs in the 1980s, it might be very expensive to enforce. But with 60 million handguns already in private hands, even an effective ban on guns might not be enough. One intriguing possibility is to return to an approach that has been tried successfully in the past—buying back handguns. In 1974, the City of Baltimore decided to offer \$50 per gun. In three months, 13,792 guns were turned in. A similar program today could help get illegally owned guns off the street, espe-

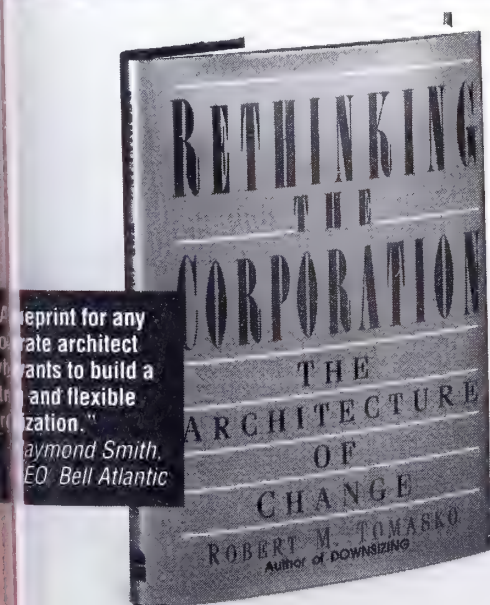
cially if combined with national gun control.

Some groups are trying to stamp out juvenile crime before it starts by teaching kids that violence simply is not the only way to settle disputes. That approach can be cost-effective, experts say, if it is started early. For example, Howard University's Violence Prevention Project is trying to teach 40 troubled 4th, 5th, and 6th graders to cope with boredom, frustration, and anger without reaching for a weapon. "Is it working? It's too early to tell," admits Hope Hill, director of the program. "It appears to be, but it will take several years to know."

In the end, no one solution will work, and no cheap and easy cure is possible. But the tremendous cost of crime to Americans demands that we not give up. The country's great wealth can surely be harnessed in an effective way to provide the remedies that will allow people to walk the streets without fear again.

By Michael J. Mandel in New York and Paul Magnusson in Washington, with James E. Ellis in Chicago, Gail DeGeorge in Miami, Keith L. Alexander in Pittsburgh, and bureau reports

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Commentary/by Mike McNamee

IT'S TIME TO START 'THINKING ABOUT TOMORROW'

Take aging baby boomers, now hitting their late 40s, with mansion-size mortgages and shantytown savings accounts. Add corporate downsizing, career uncertainties, and the resulting turmoil in pension coverage. For good measure, throw in Social Security, whose day of insolvency gets closer every time two gray heads pulling a U-Haul cross the Florida state line.

If that brew makes you feel more than a bit queasy, you're far from alone. Economists looking ahead at the baby boomers' prospects for retirement are finding them to be grim. And there is precious little cause for optimism in recent pension news. On Nov. 22, the Pension Benefit Guaranty Corp. (PBGC) disclosed that the gap between promised benefits and assets in the 50 most underfunded traditional pension plans grew by 30% last year, to \$38 billion, in part because lower interest rates are shrinking the earnings of pension portfolios. In light of those low rates, the Securities & Exchange Commission may soon force even healthy retirement plans to adjust their balance sheets. That could accelerate companies' moves away from paternalistic guaranteed pension benefits and toward plans that turn over retirement investment decisions to workers themselves.

HOT BUTTON. Baby boomers, who will start turning 65 in just 18 years, aren't making up for shakier pensions by socking away more savings. Instead, they face a huge gap between their bank balances and what they need for a comfortable old age (chart). "People are just awakening to the news that they've got to take responsibility for their own retirement," says Dallas L. Salisbury, president of the Employee Benefit Research Institute.

Washington knows that retirement fears fuel the public's growing discontent with the economy and government. But some of the capital's sharpest politicians see an opportunity as well as a threat. They predict that "retirement security" will be the next hot button on the domestic agenda. "If health

reform is the issue of today, pension reform is the issue of tomorrow," says House Ways & Means Committee Chairman Dan Rostenkowski (D-Ill.). In the Senate, New Jersey Democrat Bill Bradley is planning hearings next year on retirement issues: "We need to strengthen the pension system today rather than wait for it to falter tomorrow," Bradley warns.



BRADLEY: AHEAD OF THE ADMINISTRATION ON PENSION SECURITY

Rostenkowski and Bradley are just beginning to frame the issue. But they are still far ahead of the Clinton Administration. The gang that campaigned to the strains of *Don't Stop Thinking About Tomorrow* hasn't even started thinking about pension policy. Labor Secretary Robert B. Reich has offered a PBGC reform plan to force companies to bring their underfunded pension plans into balance. But underfunding is an old problem, and Labor officials refuse even to talk about the greater challenges of the

baby boomers' retirement. The long-term issue," they confide.

Delay could be dangerous. Washington last thought serious retirement policy 20 years ago, since, it's been tinkering with a patchwork of fixes, and those haphazard changes have caused many of the pension system's current problems. In the meantime, companies boosted their contribu-

old-fashioned, defined-pension plans in response to pension-friendly corporate tax breaks. But in the 1980s, Congress and the White House started whittling away at those incentives, and pension age fell.

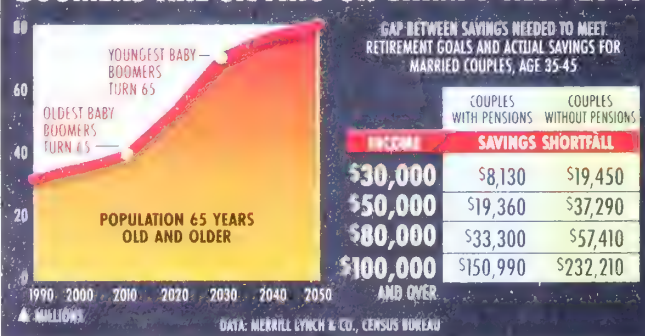
Having trampled the old ways, some politicians' answer now is the so-called "flat" approach. Senator Howard M. Mankin (D-Ohio) will soon introduce legislation that would tilt pension benefits toward lower-income workers. And other liberals want to resurrect the Carter-era notion of a new payroll tax to fund pensions for all workers. That approach would tentatively dump the burden onto the government, rather than the corporate retirement

net into a new national liability.

Instead, lawmakers pursuing pension reform should focus on three things: They would direct the debate toward solutions.

■ First, retirement policy must be judged on its own merits—not as a mere cousin to budget politics. For a decade, Washington has treated retirement as a cash cow for deficit reduction, undermining pension funding. For example, Congress lowered the deductibility of businesses' tax-deductible pension contributions to pick up \$1 billion over three years in revenue. As a result, many workers were barred from putting money into an estimated \$100 billion of big pension plans. Pension obligations could grow, so many employees face a stiff bill to balance their plans into balance. The choice: "Rather than pay some of those spons-

BOOMERS ARE SITTING ON SKIMPY NEST EGGS



erminate" the plans, says Research
Sylvester J. Schieber of Wyatt
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IBM: A BULL'S-EYE AND A LONG SHOT

Are IBM's years of woe over? Wall Street seems to think so. Fresh revenue growth and narrowing losses have inspired buy recommendations—pushing the stock to the mid-50s from less than 42 in September. Still, the picture is cloudy. Growth is coming from a surge in services and a turnaround in PCs. But neither business is highly profitable. In services, the plan is simple: cut costs and pursue business more selectively. In PCs, the plan is bolder—and much more of a long shot. Using the hot new PowerPC chip, IBM plans to create a new industry standard that redefines what a PC is.

FOR SERVICES, PAY DIRT AT LAST

For years, as IBM tried to halt its slide, its top executives and Wall Street analysts agreed on one thing: By moving aggressively into providing professional services, such as consulting and systems integration, the computer giant could make up for plunging profits in hardware. The good news is, a decade after IBM began talking about a major push in services, it is finally getting somewhere. The bad news: So far, services haven't done much for the company's bottom line.

As IBM prepares to close the books on 1993, its services business stands out as one of the bright spots. For the nine months ended Sept. 30, worldwide service revenues—excluding those from maintaining hardware—shot up 32%, to \$6.6 billion. That includes such activities as running customers' data centers (outsourcing), designing new information systems to solve specific problems (systems integration), and high-level consulting (business process reengineering). For the year, service revenues will top \$9.65 billion, reckons John B. Jones Jr., a Salomon Brothers Inc. analyst (chart). That would be 15% of total revenues, up from just 4.8% in 1989. The pie includes European service revenues—about \$2.3 billion last year—and sales by the Federal Systems Div., which brought in \$2.2 billion last year and which the cor-

poration now is looking to sell.

Profits are a different story. IBM doesn't disclose them, and analysts say they're hard to detect. One drag has been IBM's superaggressive bidding for contracts to build up its outsourcing business. Its Integrated Systems Solutions Co. (ISSC) subsidiary has been undercutting competing bids by as much as 30%, say rivals such as Electronic Data Systems Corp. (EDS) and Computer Sciences Corp. (CSC). The result, says

Bonnie Digrius, vice-president at consultants Gartner Group Inc., is that IBM's gross margins in services may be as low as 10%, compared with an estimated 23% for EDS. Its operating margin: 2% or less, vs. 12% at EDS and 6% at CSC. IBM declines to

discuss its profits specifically, but a spokeswoman says, "We are not buying market share."

ISSC, established in 1991 to serve U.S. customers only, will have revenues of \$4.7 billion this year—including \$2.5 billion in business from within IBM, says Digrius. Now, the focus is shifting to profits, says Dennie Welsh, who was named general manager of IBM North America services in October. He's chairman of ISSC and also oversees service activities in IBM's 40-

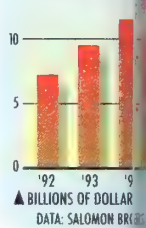
odd sales areas around the country.

Welsh, 50, joined IBM in 1966 to work on the Apollo space program and worked his way through the ranks to manage large systems-integration contracts with the federal government. His newly formed services empire is designed to improve responsiveness and cut costs. "We're trying to eliminate redundancies," he says. "We're focused very heavily on being the low-cost provider of solutions." For ISSC, that means identifying more profitable deals and slashing sales, general and administrative expenses—as a percentage of revenues—from double single digits, says Samuel J. Palminto, ISSC president.

A NOVICE. Despite its minimal profitability, however, ISSC has achieved important goals for IBM. It was created at a time when EDS and other outsiders were scooping up longtime mainframe customers. Big banks and corporations were cutting overhead by selling their data-processing departments—computers, employees, the lot—to companies such as EDS and CSC. IBM is bringing back computer services at a small fee. Now, IBM

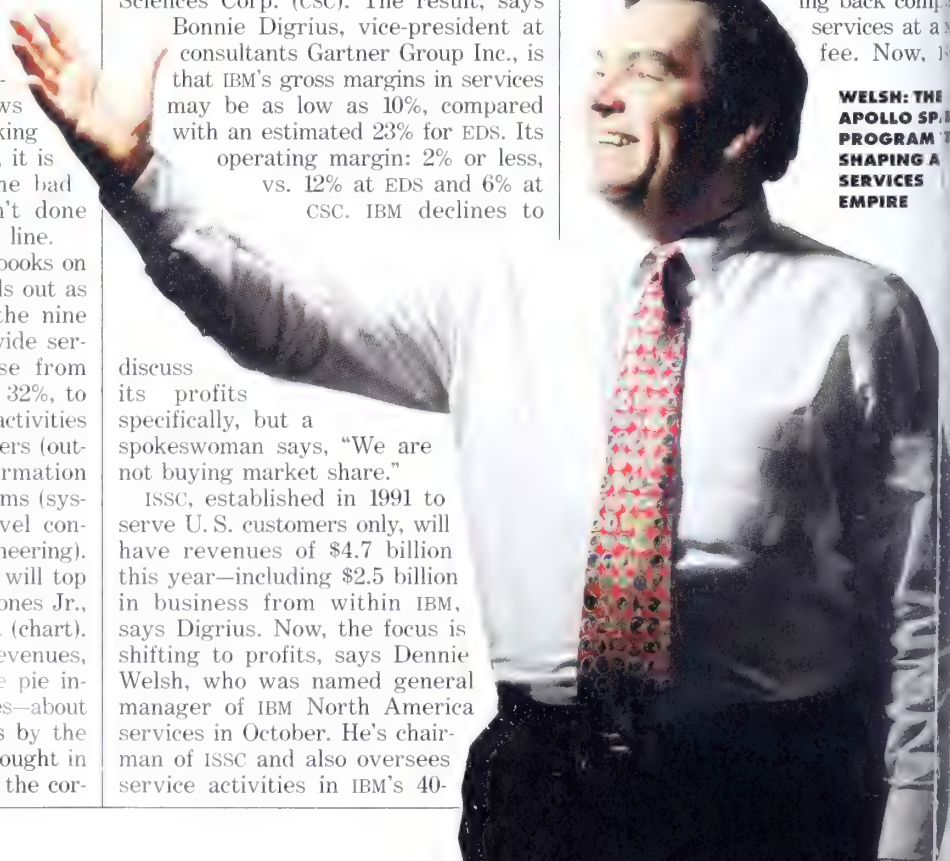
SERVING GROW

IBM'S REVENUES FROM PROFESSIONAL SERVICES, 1989-1993



DATA: SALOMON BROTHERS

WELSH: THE APOLLO SPACE PROGRAM TO SHAPING A SERVICES EMPIRE



reing "keeps customers in the church," says Howard Anderson, president of Yankee Group, a consultancy. "Maybe they're in a different but they can come back to [buying war] real easily."

A novice, IBM didn't appreciate all the intricacies of outsourcing, analysts say. IBM underestimated the cost of doing some early projects," says Bob McDermid, a former IBMer who's now director of services research at market researcher Dataquest/Ledgeway. "It got burned." Last year, ISSC signed a 10-year, \$3 billion deal to run the information systems of the Bell & Howell Corp.'s information systems. "Our best estimates are that we're losing money in the early years of the contract," says Wendell Jones, general manager of the aerospace computer division. "We'll be profitable every year of the contract," the spokeswoman says.

EMPHASIS. But Big Blue can utilize its close relations that outsourcing agencies have to sell customers other services. For instance, IBM's recent 10-year, \$3 billion outsourcing contract with the Southern Pacific Rail Corp. could lead to \$100 million of revenue from future maintenance projects. The Southern Pacific deal is one of the biggest this year, McDermid reports that he hopes for 8 to 10 more of similar size by 1995.

With Welsh's new emphasis on maximizing profitability, IBM's ranks of service personnel are swelling. Mainly because it agrees to hire its clients' data-processing workers, ISSC has seen its headcount grow from about 11,000 employees in 1987 to about 15,000 workers today. But the upward pressure on costs, but Welsh says that the outsiders bring specialized skills with them, including in-depth knowledge of specific industries. "We try to apply that knowhow in the areas it's focusing on."

What are any major weaknesses in IBM, analysts say, there are two: the company has yet to match its best competitors in depth of consulting expertise. To change that, it's been upping specialist consulting and aggressively hiring experienced people to run its industry groups. McDermid and John Singleton, former chief information officer of Bank of America, are strengthening its banking practice, for instance. And then there's the lingering question that when it comes to select-right computers and software to meet clients' needs, IBM will always have its own products. Short of that, services altogether, IBM may not lay such fears completely. It has to win customers' confidence the way it's doing now, contract by contract.

By John W. Verity in New York



IBM'S MII: A PROTOTYPE POWERPC SYSTEM CAN UNDERSTAND SPOKEN COMMANDS

CHIPPING AWAY AT INTEL

The personal-computer business has been good to IBM this year. Sales have soared, and the IBM PC Co. has taken back lost market share. But no matter how well IBM does in PCs, it's still tough to make money. Intel Corp. and Microsoft Corp. profit handsomely from near-monopolies in basic PC technology, but PC makers have seen net margins plunge from 8.1% to 3.9% since 1987, according to McKinsey & Co. "The truth is that we've become little more than assemblers," says IBM exec Nobuo Mii.

Mii aims to change all that. The 62-year-old veteran of IBM Japan is now president of IBM's newly created Power Personal Systems Div., formed to make and sell machines that Mii hopes will redefine the PC. He started showing off prototypes in November, and they're not your father's Oldsmobile. One PowerPC system, due out in the second half of 1994, has a slick black case and a flat-panel screen that seems to float in space. It responds to voice commands, takes dictation, and reads handwriting. A computer-generated talking head on the screen announces incoming E-mail, offers helpful hints, and keeps track of appointments—all for about \$3,500.

At least that's what the prototype does. Mii ordered up all those bells and whistles to showcase the talents of the PowerPC chip, which IBM developed in conjunction with Apple Computer Inc. and Motorola Inc.—and to convince other PC makers that they too should switch to an all-new PC standard. Granted, the clonemakers would be trading in one devil, Intel, for another, but IBM is hoping they'll be willing to do so to evade the Intel monopoly.

FEW TAKERS. The PowerPC troika already is laying heavy bets on the new technology. Apple, the No. 2 PC maker, will start shipping PowerPC-based Macintoshes next March and plans to have an all-PowerPC lineup by 1995. Motorola has launched a huge marketing push and has \$1 billion worth of factory space under construction to build the chips. And IBM, still the world's top computer maker, says it will build everything from palmtops to supercomputers with the PowerPC chip (although the IBM PC Co. will continue to sell Intel-based PCs).

So how goes the campaign to bust Intel's monopoly? So far, no other major PC maker has bitten. But that could change with the November

news that Microsoft is helping create a version of its Windows NT operating system for the PowerPC chip. That would, in theory, make it possible to run some existing PC software on PowerPC computers. Industry rumors now have Japan's Toshiba Corp. and Canon Inc. considering the chip. And a Taiwanese

Using its PowerPC chip, IBM has a plan to redefine the PC standard

Service and Technology



THE SECRET OF OUR STRATEGY:

WHEN YOU SUCCEED WE SUCCEED

SGS-THOMSON	1993
Annual Sales Revenues	More than \$2 billion*
Annual Growth	More than 30%*
Total Number of Employees	19,000 in 24 countries world-wide
Revenue per Employee	More than \$100,000
Financial Debt to Equity Ratio	Less than 0.3
Technological Level	0.5 μ today, 0.35 μ under development
Manufacturing Level	Leading edge 8" and 6" facilities

* Based on SGS-THOMSON run-rate figures at October 31 1993

By putting the focus on Service and Technology, SGS-THOMSON has grown to the point where we are able to sustain our position on the world market. We are now fully able to accomplish our mission, being a profitable and broad range semiconductor manufacturer. The first part of our drive to a position in the world top ten is completed. We have the commercial, financial and technological solidity to guarantee our customers and partners throughout the world access to the most advanced semiconductor technologies and products.

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Each and every second, a rain forest area the size of a football field goes up in smoke. You'd better call now.



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Arbor Day Foundation

Call Rain Forest Rescue NOW.
1-800-255-5500

Information Processing

PC consortium has announced plans to collaborate on a design that uses the PowerPC. But that may not be as big as it seems: None of the members plans to devote more than \$50,000 to the project. "The big companies want an alternative but don't want to jeopardize their relationship with Intel," confides one member.

Even backers of the new system are cautious. "Intel is geared up to make 40 million chips a year, and they're going to price those chips to sell," says Microsoft Chairman William H. Gates III. "Intel is going to be in the lead position for the foreseeable future."

Intel's hold is software—the 50,000 or so applications that run on the IBM-standard PC. So far, the only software that runs on the PowerPC are programs written for AIX, a version of Unix used in IBM workstations, and for OS/2, IBM's PC operating system. Until developers create PowerPC versions of today's popular applications, few clone-makers are likely to jump in. "The processor looks good, and the system prototypes look good, but the hype is way overdone," says G. Glenn Henry, chief technology officer for Dell Computer Corp. "It all comes down to software, software, software."

BIG ACCOUNTS. IBM has a grandiose plan to break the logjam. In addition to Windows NT and Sun Microsystems Inc.'s Solaris, IBM is working on Workplace OS, software that, IBM claims, will allow the PowerPC system to run multiple operating systems, including Windows and MS-DOS. But Workplace OS is a massive, convoluted piece of software. "They're going to have to do some master engineering to pull it off," says George Weiss, an analyst with consultants Gartner Group Inc.

In the meantime, Mii's division is focusing on large corporate accounts that are used to writing their own software. One early adopter is Citibank, which will equip hundreds of account reps with PowerPC systems that can listen in on customer phone calls, pick out key words, and then prompt the rep to address the callers' concerns. IBM hopes

that if enough of these big customers sign on, the PowerPC will attract elusive software developers. "It's desert out there, and we don't know where the water is yet," says "But I'm going to open up everything I can to find out."

Mii's track record for "finding the water" bodes well for IBM. In his lone career, he has built a reputation for breaking from the Big Blue plan to get the job done. He convinced the move laptop development to Japan. result: IBM's best-selling ThinkPad

books. Mii arrived in the U.S. in December, 1991, to head the U.S. division of International Systems Technology, a development group, as a clone of James A. Callaghan, the onetime chief. Cannavino, recently named head of overall strategy for IBM. That should give Mii strong headquarters support.

MANDATE. Mii took charge of the 386 employee PowerPC Systems Div. in 1991 and has since led the operation from IBM's PC development site in Boca Raton, Fla., to Austin, Texas, home to the workstation group. Lieberman, a team that created the original PC, says Systems is a standing entity with a mandate to

THE POWER PC PLAY

To help make its new PCs a standard, the Power Personal Systems plans to:

- ▶ Back Microsoft's Windows NT and several other non-IBM software standards
- ▶ Stay lean by sharing IBM PC components, factories, and distribution

But the new operation still must:

- ▶ Perfect new features such as Workplace OS, an all-purpose operating system
- ▶ Woo software developers
- ▶ Compete for customers against IBM's PC and workstation groups

much as it can, in any way it sees fit. To keep costs down, some 70% of PowerPC's components will be off-the-shelf PC fare. Mii also hopes to sell through dealers and mail order. That will pit PowerPC models against the IBM PC Co., Mii concedes. It plays down the potential for internal conflict, saying he expects the PowerPC to take over 10% of the market in the next few years.

More important than the potential conflict within IBM is the murky market that the market is getting. PC customers have seen Mii's prototype and their efforts by IBM and its allies to go on. PC makers to gamble on their alternative to today's PC standard. But they're not that there are no takers. With clones and the software they will attract, Mii's brainchild could wind up as another PC wannabe.

By Peter Burrows in Dallas, the bureau reports

The McCooeys



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ALTHOUGH THE MCCOOEY BROTHERS AND THEIR SISTER
HAVE ALWAYS BEEN REMINDED OF THEIR STRIKING SIMILARITIES,
IT IS THEIR DIFFERENCES THEY HAVE ALWAYS INSISTED ON.

IT IS NO WONDER THEN, THAT EACH OWNS
A DIFFERENT WATERMAN PEN. FOR WHILE STYLE IS KEY,
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IN JAKARTA, THE FRENZIED ACTIVITY HAS BROUGHT ALL-NIGHT WAITS FOR ISSUES—AND RIOTS

TOO HOT FOR COMFORT

From Kuala Lumpur to São Paulo, stocks are overheating

Two years ago, Charoen Pokphand Group, a Thai conglomerate, landed a government contract to install 2 million phone lines in Bangkok. CP, whose main businesses are animal feed and poultry, spun off a new company, TelecomAsia Corp., to handle the deal. The company, 15% owned by Nynex Corp., recently floated a 223 million-share offering to the public. Despite the company's meager operating history, the \$500 million issue was 17 times oversubscribed, with foreign investors pulling down half. The shares are already trading on the when-issued market at \$4—double their issue price and 83 times projected 1994 per share earnings. "It is grossly overvalued," says Elizabeth X. Q. Tran, managing director of Prudential Asia Fund Management Ltd. in Hong Kong.

The TelecomAsia story is far from unique in the developing world: Securities markets are roaring skyward. In Malaysia, a marginally profitable timber and insurance outfit called Idris Hydraulic trades at a huge 272

times earnings. Brokers whisper that the company's political connections will pay off in a big timber concession in Burma or perhaps a megawater project in Malaysia.

Even mainstream companies are looking very pricey. For instance, most analysts agree that with Singapore wired to the hilt, recently privatized Singapore Telecom's growth prospects are modest. Yet the company sells at 60 times 1993 earnings and recently had no trouble raising \$3 billion with a stock offering.

None of this is to say that there aren't compelling reasons to invest in the emerging markets—at the right

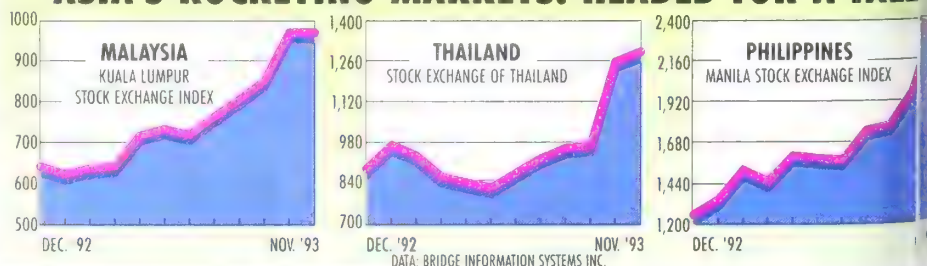
price. Many of these countries' economies are growing at a 5%-to-10% year clip, compared with 3% in the U.S. Of late, their markets have far outperformed Western exchanges. Manufacturing is shifting from the West to the developing world, particularly Asia. Companies in these countries are filled with opportunities in meeting booming demand for housing and consumer goods.

FIREWORKS. Still, there are many signs that markets in the developing world are overheating. From Kuala Lumpur to São Paulo, the emerging markets have had an incredible run this year. Some of the biggest gains have been in Southeast Asia. The Thai stock market has risen up 73%, Malaysia 62%, and the Philippines 88%. In Jakarta, brokers hired people to stand in line for applications to buy new issues, which can almost always be resold at higher prices than they were offered on offerings. Recently, a group of such people, frustrated after waiting all night, rioted and burned tents set up by underwriters to process orders.

Fireworks extend well beyond the stock market. Brazil's market is up 79% and Turkey 189%—despite a nasty Kurdish insurgency. Price-earnings ratios have advanced sharply along with the markets: Mexico City's average p-e has jumped from 10 to 16 in only four months. Manila has spiraled from 18 to 28. With stock prices thus outstripping profit growth, many analysts think a correction may be inevitable. "It's been a pretty breathless performance," says William G. McGee, an emerging-markets analyst at Ibbotson Analytical Services Corp. "There will be a reckoning."

Investing in emerging markets has some of the characteristics of a fad. Once the province of a few trepid investors, developing countries have become almost overnight the darlings of mainstream Western banks, pension funds, and other money-management outfits. Michael J. Howell of Barings Securities Ltd. in London reckons that investors in the big industrialized nations will pump some \$38 billion into the

ASIA'S ROCKETING MARKETS: HEADED FOR A FALL



g countries' exchanges in 1993. Individuals have also become big play-rough specialized funds. Since the 1990, 31 mutual funds, 12 closed-uity funds, and 8 closed-end fixed-funds targeting emerging mar-ve been set up in the U.S. alone. funds, along with existing closed-nds, have raised \$7 billion.

VALUES. At the end of last year, 13 30 closed-end emerging-markets isted on the New York Stock Ex- traded at a premium over the f their underlying securities portfo- w 20 out of 33 do, with the aver- emium about 11%. Some of these eem quite vulnerable to declines. e observers argue that, as in any any investors who rushed head- to these markets could quickly their shares if the going gets

Emerging markets have become a fad for Western banks and pension funds

rough. Miami-based closed-end fund specialist Thomas J. Herzfeld is already preparing for that. While he was fully invested at the start of 1993, the country-fund trading accounts he manages are now 90% in cash.

Big institutions can be especially fickle. They are responsible for much of the boom in the Southeast Asian markets. Already, hot markets such as Hong Kong and Singapore have eased back as institutions began taking yearend profits. Asian markets are unusually sus-

ceptible to shifting sentiments because of their small size.

Talking from his car phone in Indonesia, J. Mark Mobius, the hands-on head of the Templeton emerging-markets fund and other Templeton funds, says that while stocks in Thailand and Malaysia and perhaps the Philippines were overpriced, there are still good values to be found in countries such as Brazil, Portugal, and Indonesia. But he admits to seeing more and more signs of excess. Some underwriters, he complains, now have the gall to press him to buy stock without visiting the companies. Mobius won't buy anything without checking it out thoroughly. Others these days seem much less careful.

By Stanley Reed, with William Glasgow in New York and Pete Engardio in Hong Kong

ERRY, CHARLIE

e trail since September, the feds hook Bazarian in San Juan

financial scamster Charles J. Bazarian (BW—Nov. 15) may be the consummate con man, s apparently not the con- fugitive. On Nov. 26, FBI in San Juan, Puerto Rico, Bazarian, 54, during an on screening of *Carlito's* which Al Pacino stars as a Rican drug dealer trying right.

ian's capture ended an in- worldwide manhunt that n Sept. 5, the day after he ave returned to prison fol- is daughter's wedding re- n Oklahoma City. On Aug. revoking his probation for y list of violations and or- im back to jail, an Oklaho- federal judge granted Ba- 24-hour furlough to attend the

unchaperoned by federal The stocky, gregarious Bazarian reception with a woman friend r made it back to jail.

JFF. Bazarian had been released rison halfway house in Oklahoma 1992 after serving part of a r sentence for bank fraud, con- and other violations involving institutions in California, Oklaho- Florida as well as the Housing Development Dept.

confronted in the theater by clothes agents, Bazarian initial-



HUG SHOT: BAZARIAN WITH HIS DAUGHTER, CHRISTINA

ly denied being the man they were after, identifying himself as "Billy Something," according to Hector M. Pesquera, assistant special agent-in-charge of the FBI office in San Juan. Pesquera then pulled out a photo of Bazarian and asked: "Do you think this is Billy?" "No," Charlie confessed. "You got me." Dressed in resort garb, Bazarian then launched into a critique of the film, says Bob A. Ricks, agent-in-charge of Oklahoma. "He gave it a poor review and said how unrealistic it was." At the time of his arrest, Bazarian was accompanied by a son, Stephen, and an unidentified Swedish national with

whom he was sharing an apartment.

According to Ricks, the search focused on Puerto Rico in early November. Agents figured Bazarian had flown to a destination outside the continental U.S. that didn't require a U.S. passport. Aided by subpoenaed airline records, the hunters narrowed the possibilities to San Juan. The FBI then flooded the city with mug shots of Bazarian: One recipient—described by Pesquera as a "concerned and helpful citizen"—spotted him near the theater and phoned the feds. "You're not going to believe this," the tipster told the agents in San Juan. Ricks said Bazarian had been island-hopping in the Caribbean but lately had apparently begun "to feel very comfortable" in Puerto Rico. That, it seems, was his undoing. "It's usually more difficult when they're moving," says Ricks.

But the saga might not be over yet. At San Juan's Metropolitan Detention Center, awaiting a Nov. 29 appearance before a U.S. magistrate, Bazarian, who has a history of heart trouble, complained of chest pains and attempted suicide by cutting his wrists with a razor. Still, that was enough to get Charlie into Metropolitan Hospital's intensive-care unit. Although Bazarian's lawyer, Robert A. Manchester III, says he has no plans to fight extradition from Puerto Rico, law enforcement officials acknowledge that Bazarian could remain hospitalized indefinitely if his physician certifies he is unfit to travel. That now seems likely. Manchester says Bazarian was scheduled for heart bypass surgery on Dec. 2.

An all-expenses-paid semiprivate hospital room in San Juan might not be Charlie Bazarian's idea of paradise. But it is no doubt preferable to the musty jail cell awaiting him on the mainland.

By Phillip L. Zweig in New York

'A PRIVATE MARKET WITHIN A MARKET'?

NASDAQ's system may give dealers and brokers an unfair edge

During the 1987 stock market crash, the NASDAQ trading system for over-the-counter securities suffered a communications meltdown. Jammed telephone lines made it well-nigh impossible for investors to reach their brokers and for brokers to reach market makers to execute trades. To rectify the problem and to bolster NASDAQ's image as the market of the future, the National Association of Securities Dealers, which operates NASDAQ, introduced SelectNet, a computerized order system that enables brokers and dealers to bypass phone lines to make trades directly.

But while the three-year-old network may have solved one problem, it has created another firestorm for the NASD. Critics, from institutional investors to Capitol Hill, charge that the trading system has evolved into a private market that NASD securities firms can exploit at the expense of investors. "It makes a sham" of the public market, says Peter W. Jenkins, head trader at Scudder, Stevens & Clark Inc.

PLAYING GAMES. The problem, according to the critics, is that prices are often better on SelectNet, which only NASD members can see and use, than on the national NASDAQ system, where bid and asked prices for the public are posted. Market makers normally buy stock from customers at the public bid price and sell at the public asked price, making their profit on the spread. But by using SelectNet, they can do even better. Often trading in sixteenths and thirty-seconds of a dollar, they can usually buy stock from another market maker at a price lower than the public bid. When a transaction is reported to NASDAQ, the price is rounded up to the nearest eighth. "It's obvious all kinds of games are being played with this system," says Harold S. Bradley, head trader for the

20th Century group of funds.

With 12 million shares traded daily on the system, small differences can add up. That's why a powerful coalition of SelectNet opponents is pressing the NASD to open up the network. Sixteen institutional money managers, including Fidelity Management & Research and T. Rowe Price Associates Inc., are challenging the system. Representative John D. Dingell (D-Mich.), chairman of the



House Energy & Commerce Committee, also has chimed in. On Nov. 10, the Investment Company Institute, the mutual-fund trade group, took the unusual step of writing to the NASD to "strongly urge" that the private system be made public.

The institutions aren't asking to bypass market makers and execute trades among themselves on SelectNet. They just want to see the prices, which would allow them to negotiate better deals

Critics say prices are better on the high-tech SelectNet than on the national system

with NASD market makers or on alternative electronic trading systems such as Reuters' Instinet.

The NASD's board is scheduled to discuss the issue at a meeting in January. Despite intense pressure for change, there will probably be substantial institutional resistance. Market makers trading for their own account can profit handsomely by exploiting superior prices on SelectNet, which in the first six months of this year handled about 5% of the shares traded on NASDAQ, though it greatly underestimates the volume linked to SelectNet prices.

"NOTHING EVIL." SelectNet is sufficiently lucrative for brokers and dealers that they're even willing to incur the wrath of the New York Stock Exchange to expand the system. Last year, the SEC asked the Securities & Exchange Commission to approve trading of exchange-listed stocks on the system. The

Board's chilly comment: They should "reconsider" whether SelectNet should be in business at all. Rather than expanding electronic systems, "has evolved into a private market within a market."

The NASD claims that SelectNet is simply a more efficient way for dealers and market makers to do a better price for customers' securities. Richard Schuchman, NASD executive vice-president, notes that it enables NASD member firms to execute direct orders to market makers and to negotiate through counteroffers entered

into the system. "There's nothing about it," he declares. As some institutions see it, market makers feel they deserve extra profits from SelectNet to compensate them for trading business siphoned away by alternative systems.

All the same, NASD members are willing to compromise. On Nov. 1, market makers proposed to the NASD board the option of making SelectNet quotes available to institutions after a 60-second delay. But 60 seconds might as well be a year for money managers. "That would be unacceptable," says Craig S. ICI's vice-president for securities.

NASD members haven't settled their next bid. But for some of the largest customers, only one offer defuse this fight: access to NASDAQ's private trading network.

By Michael Schroeder in Washington

LL IT GUS 1-2-3

software is helping insurers get tough on claims fraud

baby with a backache? When claims from chiropractors for treating entire families—including a month-old—came into Travelers recently, they were quickly labeled as possible fraud. Further investigation showed they were part of a kick scheme where "patients" repayments would fork over most money to chiropractors. It wasn't le-eyed Travelers employee who

the pattern, r. It was the weapon in an attack on health-care Software de- o sift through ins of claims et suspicious nd treatment s.

computer g is increasing used to insurers' an- billion fraud With the in- pushing for are providers more paper- ims through rs, the flesh- d employees otice fishy re taken out oop, and in- re realizing ed software m that func- e newly ag- stance stems

n health-care reform, with its s on cutting costs. The reforms e it harder for insurers to pass e cost of fraud to consumers in of higher premiums.

FINDING. Insurers' programs are ing everything from widely di- Zip Codes between doctors and o office visits for the sniffles on ving. Other software compares practices against peers to see, ple, if they're filing many more r hysterectomies than others. vare kicks out potential cases, e then investigated.

ers and Aetna Life & Casualty been especially active in de-

veloping proprietary software. Their systems compare medical treatments prescribed by doctors and medical labs in different regions. A Travelers program is designed to detect overcharging by doctors and labs. One indicator: Several family members receiving care by the same doctor on the same day. The suspicion: A medical provider may have seen one patient that day but sent in claims for the entire family.

insurance profit margin. Fraud is estimated to take a 2- to 10-percentage point bite out of margins. Aetna says its program, which spots 500 signs of fraud a month from 7 million claims, was responsible for 15% of the \$38 million it recovered in bad health insurance payments in 1992. James L. Garcia, director of Aetna's health insurance tracking unit, predicts that will soon grow to 75% as Aetna relies more heavily on its increasingly sophisticated system.

Helping insurers ferret out fraud is becoming a hot business. Recently, AdminaStar Solutions Inc. of Indianapolis decided to modify the fraud-detection software that it uses to help federal officials detect Medicare fraud and to market it to private health insurers. And on Nov. 17, Big Blue unveiled IBM Fraud & Abuse Management Systems, a service that analyzes the billing and medical

USING COMPUTERS TO FIGHT FRAUD

TRAVELERS Software can track some 30 indicators of fraud, such as providing care on holidays and performing hysterectomies on men.

AETNA Software tracks number of times a claims processor makes changes in a file. The more changes in prescriptions or treatment, the more likely fraud has occurred.

MASSACHUSETTS MUTUAL Software determines whether doctors are "up-coding" procedures to more expensive charges or expanding costs by dividing charges for one procedure into separate charges.

NORTHWESTERN NATIONAL LIFE Software compares payments to doctors against previous years to spot any dramatic, possibly fraudulent increase in income.

JILL SCHNEIDER



MIKE SMILEY STEPS IN AFTER TRAVELERS' SOFTWARE SMELLS A RAT

The human touch comes when claims are investigated. After documenting a case of excessive billing, a Travelers rep will then approach the doctor. About 15% to 20% of the time, say insurers, there's a legitimate explanation. "We don't bluff people, we just lay the case out," says Michael S. Smiley, president of Travelers' fraud investigation unit. "We have to make them realize that they would lose in court." More often that not, offenders return the money.

Travelers thinks so much of its software that it is establishing a subsidiary to market it to other insurers. Smiley says the unit, ExClaim Inc., can add 2 percentage points to a company's health

practices of health-care providers. One pilot program helped uncover chiropractors in Southern California who were filing inflated claims. One doctor scored 990 out of a possible 1,000 on the IBM fraud-detection system. How did he do it? He charged an average of \$5,264 while chiropractors around him were billing \$1,184. And he ordered X-rays at twice the rate of his counterparts.

Companies are now looking for other types of fraud their systems can combat. Auto insurance is one logical area. Entire families crashing different cars on the same day? Toddlers with bad transmissions? The possibilities are endless.

By Chris Roush in Hartford

BY GENE G. MARCIAL

ELECTROGLAS: ARE THE CHIPS DOWN OR UP

One person's discard is another's ace in the hole. That's how some big investors feel about Electroglas, a division jettisoned by General Signal through a public offering on July 1. A number of pros who scooped up shares at the initial offering of 16 are convinced they have come upon a bargain.

True enough, the stock hit 28 by late September, but early profit-takers drove it down, and it has since slipped to 20. "Not to worry," says money manager Arnold Schneidler, president of A.R. Schneidler & Co., a New York investment firm. He's sure the company is one of the most attractive and undervalued players in the booming semiconductor industry, and he feels confident the stock will double in just a year.

MARKET LEADER. Electroglas doesn't make semiconductor chips. It builds and services test equipment used in the manufacture of semiconductors. Electroglas is the largest producer of automatic wafer-probing equipment, which companies such as Intel, Motorola, IBM, Apple Computer, and Hewlett-Packard use in testing their chips and computers.

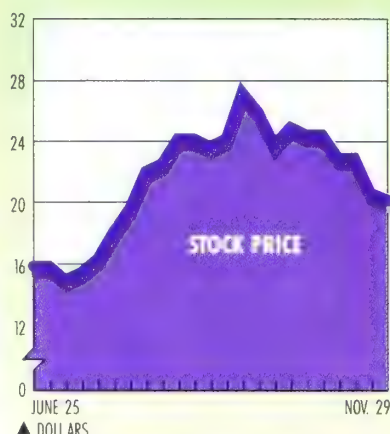
The company dominates the North American market, with more than a 72% share. Worldwide, however, Japan's Tokyo Electron Ltd. is No. 1, with Electroglas controlling only 37% of the combined European and Asian markets.

Schneidler says much of the demand for prober equipment will come from the 70 megafabrication plants that the big semiconductor companies plan to construct through the end of the century. Electroglas, he adds, is also benefiting from the public's increasing fascination with personal computers, wireless communications, and multimedia technology.

Also high on Electroglas is Ed White, an analyst at Lehman Brothers. The stock, he notes, has one of the lowest price-earnings ratios in the semiconductor equipment group, selling at about 13 times next year's projected earnings.

Money manager Schneidler notes that third-quarter results have started to show Electroglas' growth potential.

ELECTROGLAS: READY FOR ANOTHER BOUNCE?



DATA: BRIDGE INFORMATION SYSTEMS INC.

Earnings for the period jumped to 44¢ from 14¢ a year ago. He sees earnings leaping to \$1.60 next year from 1993's estimated \$1.35. Electroglas earned 65¢ in 1992.

With the industry's recent switch from the six-inch to the eight-inch semiconductor wafer, speedier and more complex probers will become necessary to ensure high-yield wafer production, says Schneidler. That means that the larger wafers will require even more tests. So Electroglas is in the catbird seat, he says, because "you can't make a microprocessor without a prober."

FIRED UP OVER HIGH-TECH GADGETS

No, Wyle Laboratories isn't in the battered health-care business. The company is a major distributor of high-tech electronic products, mainly computer systems and semiconductors. "With the demand for computers and semiconductors now strongly on the rise, Wyle's sales and profits will strike the big numbers over the next two years," says Boston money manager Scott Black.

Although the company willingly sacrificed profits for increased market share by pursuing a big expansion program, some analysts have started to raise their earnings estimates for the next two years. Wyle is the biggest distributor of Intel's microprocessors and products of such high-tech manufacturers as Motorola and Texas Instruments. The company has opened 10 distribution facilities in the Midwestern and Eastern parts of the coun-

try to complement its Western

Black says not many investors recognize the potential of Wyle's expansion program. Many have dumped their shares. But some who have on are Fidelity Magellan, Invest Funds Group, and Delphi Management of which Black is president. He says the stock hitting 30 in two years.

Value Line analyst Glenn Johnson, who earlier had expected Wyle to lower earnings for the year ending Jan. 1, 1994, recently pushed up his projection. He now thinks the company will earn \$1.10 in fiscal 1994 and \$1.45 in 1996, vs. fiscal 1993's \$1.45.

A HOLLYWOOD HAPPY ENDING?

When analyst Margo Vignola cut her 1993 earnings estimate for Hollywood Casino, many big investors bailed out of the stock. After all, she's with Salomon Brothers, the lead underwriter for the stock's torrid initial public offering. May 27 at 16 a share. The stock zoomed to 32 in just a week before burning out: It fell to 17 by early August. Then Vignola's downscaling in mid-October kicked the stock to 10.

Vignola likes the stock at this price, however. The company owns and operates the Sands Hotel & Casino in Atlantic City and has expanded into riverboat gambling business in Arizona. She argues that the first riverboat, which opened in mid-June, was expected to gain steam and disappointed expectations. But "looking into 1994, Arizona should be a significant driver to earnings." She expects a loss of 30¢ in 1993 and earnings of \$1.20 to \$1.50 in 1994.

Some of Hollywood's big players have kept the faith all through the decline. One of them is money manager Roland Gillis of the Keystone growth funds, which has a 9% stake. In the company's two riverboats getting full swing, they will "more than make up any slump in Atlantic City," says Vignola. The stock could double from its current price, he says.

Another bull is Mark Mansour, analyst at Donaldson Lufkin & Jenrette Securities, who notes that the other riverboat operators are mainly in sparsely populated areas, Hollywood put itself in one of the most lucrative and undersupplied gaming markets in Illinois. The company, he adds, has negligible competition in a market that has a huge potential.

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DOES SCOTT BECK HAVE ANOTHER WINNING RECIPE?

Investors hope he'll do for chicken what he did for home video

It has been said that one good idea is all it takes to make a fortune. Well, Scott A. Beck has had two. In the mid-1980s, the precocious, press-shy entrepreneur spotted a small movie-rental company called Blockbuster Video and helped turn it into a national chain. Then came Boston Chicken Inc., the hottest initial public offering to hit Wall Street in recent memory. The result is a personal windfall that probably tops an estimated \$200 million on paper. Beck's age: 35.

As Boston Chicken's chairman, Beck was the main beneficiary of the chain's mind-blowing IPO in early November. The shares shot to 48¢ from an asking price of 20¢ on the first day of trading. And though they settled back down to about 39¢ by Dec. 1, Beck's 15.9% stake in the common stock still commanded a princely \$122 million in market value. Why all the interest? Investors are counting on Beck and his team of former Blockbuster executives to use rapid expansion and sophisticated information technology to do for chicken what they did for home video.

EARLY START. Beck, who splits his time between a home near Boulder, Colo., and Boston Chicken headquarters in Naperville, Ill., doesn't like to talk about his wealth. He won't reveal his total stake in Blockbuster—he only says it has changed since March, when the company last disclosed it (he won't say by how much). Then, his shares were valued at \$75 million. "I'm not interested in publicity," he says. "I'm interested in creating value for shareholders."

The Beck clan has certainly created plenty of value. Scott's father, Lawrence Beck, was one of several tough Chicago and Florida trash haulers who banded together in the 1960s to found Waste Management Inc., now WMX Technologies Inc. Growing up on the Windy City's far South Side, Scott worked summers at the company and spent hours talking

business with his father's scrappy partners. While taking a break from Southern Methodist University, Beck moved to London and stayed with then senior Waste Management executive John J. Melk. Melk recalls Beck's inclination toward risk-taking: In London, his young house guest dabbled in silver futures.

Beck graduated from SMU, but not until 1989. Meantime, he became an independent investment adviser selling real estate limited partnerships and a Merrill Lynch & Co. leveraged-buyout fund. While hunting for deals, he came across Blockbuster, a nascent video-store outfit. In 1985, he persuaded his father to invest and, with a client named Jeffrey J. Shearer, he launched franchises in Detroit, Chicago, Minneapolis, and Atlanta. By 1987, a Waste Management group led by current Blockbuster Chairman H. Wayne Huizenga bought out the parent. National expansion followed.

In 1989, Blockbuster purchased Beck group's 104 units for \$120 million in stock, and Beck became Blockbuster's vice-chairman and COO. Two years later, former franchise partner and Blockbuster executive Saad J. Nadhir spotted Boston Chicken and enticed Beck with the idea. Beck was cool at first, but over the next year, a partnership including Beck, Nadhir, and Shearer pumped in \$27 million to gain control.

Former Boston Chicken consultant George D. Rice, who now works for PepsiCo, Inc., says the talks were an "arrogant SOB, but he was smart and had money."

Beck hasn't lightened up much, but he doesn't let Boston Chicken impinge on his personal life, either. When Charles A. Lynch investment bank was up the public offering, Beck eschewed the ten found calls to Beck by ed to hiking trails in Colorado where Beck answered his cellular phone. Beck emphasizes the company's teamwork—Nadhir develops franchises, and Shearer handles operations. But Beck is "the real glue" that holds the team together.

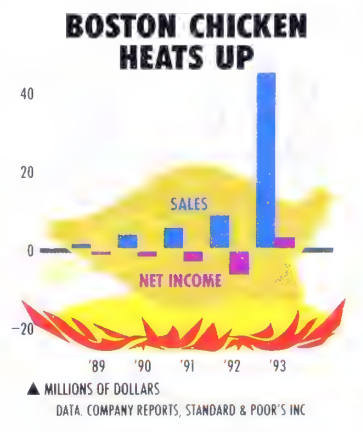
Can the new squad meet investor expectations? Boston Chicken roasts its chickens whole on a rotisserie instead of frying separate pieces, a move additional chains do. It's a hot niche. Beck's company is supporting \$750 million in market value with just \$100 million in estimated 1993 sales. While its this year should shoot to \$200 million from a 1992 loss of \$5 million, that adds up to a lofty price-earnings ratio of 219. Although Wall Street cleaves its own rotisserie product native and already claims to sell more rotisserie birds than Boston Chicken.

Beck is satisfied. But the day of the offering, he warned his investors against hubris. "I think this is the beginning line, not the end line," he says. "I don't see sellers on Wall Street who would probably get a good price."

By Richard Melcher in Naperville, Ill., with Gail DeGruy in Miami

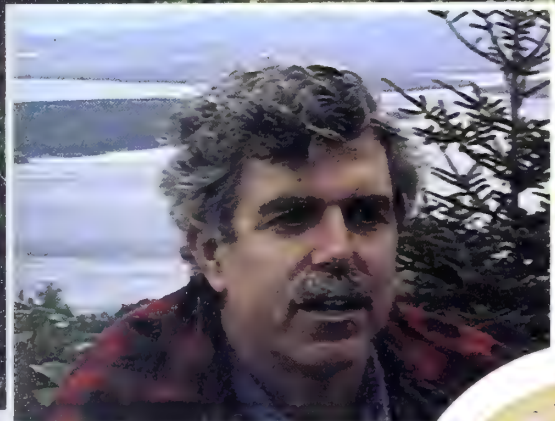


TEAM EFFORT: SHEARER, BECK, AND NADHIR AT THE TEST KITCHEN



Announcing the 1993 Alexander Calder Conservation Award

Fostering Partnerships Between Business & Conservation



Richard Spencer



Edward Kfoury



Union Camp Corporation and The Conservation Fund are pleased to announce the winners of the 1993 Alexander Calder Conservation Award. As co-founders of the Geleey Lakes Heritage Trust, Richard Spencer of Portland and Edward Kfoury of Oquossoc, Maine created an initial series of alliances between industry, government and the private sector. The 10,000-acre preserve they established includes both lands for recreational activities as well as working forests which will preserve the forestry jobs within the community.

The annual Calder Award recognizes individuals who protect wildlife habitat in the United States through a partnership of business and conservation. It is accompanied by a \$10,000 grant from Union Camp. This year's recipients have shown that responsible environmental protection and economic growth can work hand-in-hand. Their achievements offer new inspiration for the future of conservation partnerships in America and continue the legacy initiated by Alexander Calder Jr., Union Camp's former chairman and CEO.

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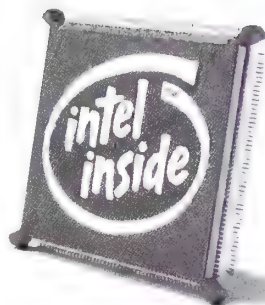
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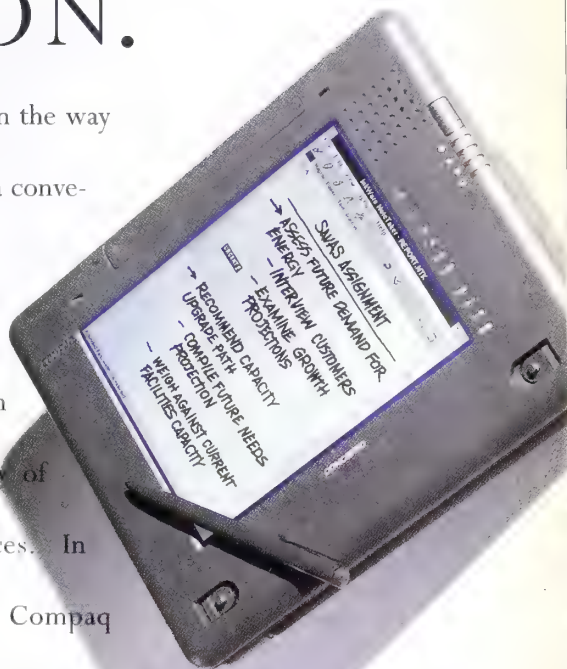
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LOEWS COULD BE WORTH MORE DEAD THAN ALIVE

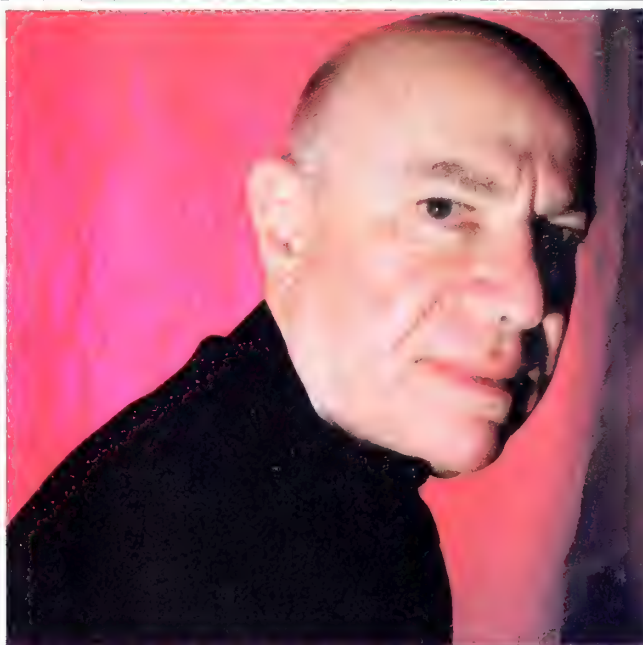
The conglomerate's stock has dropped 23% in a year, and its operating units are performing poorly

For decades, Laurence A. Tisch, the investor, has been known for his Midas touch. A cagey opportunist who has routinely been lumped in the league of such prescient luminaries as Warren Buffett, Tisch has had a talent for buying companies at bargain prices and watching his investments blossom. One of his biggest triumphs was putting an estimated \$706 million into CBS Inc., a stake that is now worth roughly \$1.1 billion.

But things aren't looking nearly so spectacular for Larry Tisch, the executive. Sure, CBS is prospering (page 106). But the attention to the bottom line that Tisch became famous for at the network is sorely lacking at his corporate homestead, New York-based Loews Corp., where the Tisch family holds 29% of the stock. Loews' Lorillard Inc. tobacco unit has been savaged by the cigarette price war. Its insurance holding, CNA Financial Corp., has been hit by back-to-back disasters: claims for Hurricane Andrew and the need to reserve billions for asbestos-related litigation. And the other businesses that make up the Loews conglomerate—hotels, oil drilling, and clocks—are either too small or too weak to pick up the slack.

NO RESPECT. That has made for some dismal results. Loews' income from continuing businesses may total only \$66 million this year, estimates Merrill Lynch & Co. analyst Allan Kaplan. That's better than last year's loss of \$267.8 million but still 90% below 1991's profit of \$668 million. And revenues are slipping as well, down 3%, to a projected \$13.3 billion this year. Ironically, Loews' stock has assumed some of the bargain-basement qualities that attract bottom-feeders such as Tisch in the first place. Loews now trades at just a smidgen above book value. Its stock price has tumbled 23% in a year, to 92%.

Small wonder that the Wall Street



LARRY TISCH: A LONG HISTORY OF "BUY CHEAP, SELL DEAR"

cachet of the company the Tisch family built has dissipated considerably. In October, the Council of Institutional Investors named Loews the 37th-worst-performing of 1,000 large U.S. public companies. And when Loews came out with a \$400 million debt offering in October, manager J.P. Morgan Securities Inc. found the bonds a hard, slow sell. It took Morgan two weeks to sell the bonds—about twice as long as the firm had expected. "It's ludicrous. They don't

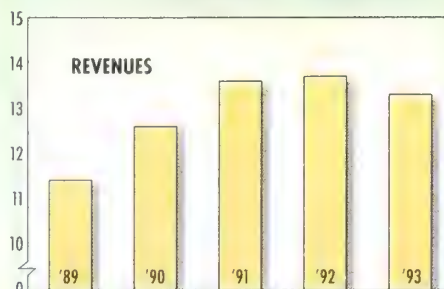
get any respect" on Wall Street, says Scott M. Block, a Tisch fan and institutional money manager at Institutional Management Inc., which owns 61,000 Loews shares.

Larry Tisch, 70, and his brother, co-CEO Preston Tisch, 67—both of whom declined to be interviewed for this story—began asserting their hodgepodge of business in 1960. First came the acquisition of Loews Theaters, then gave the family company its name, even though the theaters were eventually sold. Next came Lorillard Inc. and CNA in 1974. Its most recent acquisition was Drilling Inc. in 1992. Brooklyn-born brothers went into empire-building. In 1993 they made their golden rule by buying assets cheap, reaping their cash

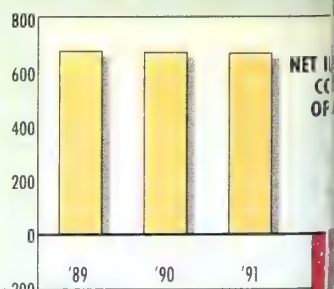
and then selling pieces at the market's peak.

Some asset plays have paid off handsomely: In 1982, Loews bought oil tankers for \$42 million—approximately their scrap value. Loews chartered the tankers for a while, sold one for \$1 million, and then sold a half-share of the remaining six for \$154 million. London's Hellenic Shipping Co. delivered a healthy average annual

LOEWS' RESULTS ARE LACKLUSTER...



▲ BILLIONS OF DOLLARS
DATA: COMPANY REPORTS, MERRILL LYNCH & CO. ESTIMATES



▲ MILLIONS OF DOLLARS
*EXCLUDES INVESTMENT INCOME

ty of 18% between 1982 and 1991. continues to display a deft touch comes to playing the market, as rue, he sold off a huge chunk of k stocks in the summer of 1991, before lower interest rates ignited a prolonged rally in bank shares. ew's investment portfolio—which y has included huge equity stakes mpion International Corp. and take Mining Co., as well as CBS—ected to contribute \$425 million ws' bottom line this year. That's from last year.

it's becoming apparent that is no longer the treasure chest it as. Many of the more ing assets have been and Loews appears to be with businesses that performing well.

Lorillard, which in 1991 d Loews with fully 64% profits from continuing ses. For a few months ndustry leader Philip Cos. touched off a cigar- ce war in April by low- ie price of its Marlboro Lorillard held up well. ship Newport menthol hich accounts for 67% ard's revenues, saw a 1% in- n supermarket sales, to \$188.3 in the year ended Sept. 12, ac- to Information Resources Inc. e strength? Newport is the lead- d among African Americans, a generally regarded as more al and less likely to switch to brands, says Sanford C. Bern- Co. tobacco analyst Gary Black.

G SMOKE. Unfortunately for hat strength didn't hold. In Au- rillard was forced to slash price- ewport and other brands, such and True. Third-quarter cigar- es fell 24%, to \$348.7 million, ofits dived 60%, to \$58.4 mil- d while other tobacco compa- h as Philip Morris and RJR Na- ., can look to booming overseas alvage their bottom lines, Loril- no international operations to

lessen its dependence on the disintegrating American market. Tisch sold Lorillard's international tobacco business to BAT Industries PLC in 1977 for \$141 million. Although it was clear even then that domestic tobacco consumption was in a decline, Tisch bet that U.S. price increases would continue to fuel profit growth. "It has been a harvest strategy," says Gary Black. Now, "they don't have the growth prospects [of their competitors]. The best you can hope for out of Lorillard is flat profits."

The outlook is little better for CNA, the insurance giant that is 83% owned by Loews. In 1974, Tisch bought a con-

in claims and expenses for each \$1 received in premiums. The average payout for all commercial insurers is about \$1.12.

And like other insurers, CNA is being bedeviled by low interest rates. It's having a harder time offsetting those weak underwriting results with investment gains on its \$24 billion portfolio, which is managed by Loews.

EMPTY BEDS. Nor are any of Loews' other businesses in great shape. Loews Hotels, with nine hostelrys in cities from Los Angeles to Quebec, is expected to earn only \$3 million this year, on revenues of \$185 million. That includes fees it gets from managing five other hotels.

Again, Loews is stuck in a tough end of the industry—luxury hotels, where "the external environment has been terrible," says analyst Sheldon Grodsky of Grodsky Associates Inc., a securities firm. "The overall market has been glutted for years." And though Tisch aficionados may argue that the hotels are valuable assets, finding a buyer for any hotel Loews might want to sell could be tough.

The performance of Loews' Bulova Corp., which makes watches and clocks, is equally uninspiring. Its sales have stagnated, and its profits have been dwindling for years. Bulova's defense subsidiary, which makes fuses and other timing devices, has been hard hit by the downturn in military spending.

Despite myriad problems, the Tisches are under no immediate pressure to shake up their empire. The company remains very much a family affair. Larry's sons have key positions: Andrew H. Tisch runs Lorillard, James S. Tisch is Loews' executive vice-president. Thomas J. Tisch oversees the family's private holdings. Jonathan M. Tisch, Preston's son, runs Loews Hotels.

And any change in direction isn't likely to be dictated by Loews' directors. The Tisches hold 5 out of 11 board seats. And the outside directors are apparently not concerned about the precip-

The Tisch family holds 5 out of 11 board seats, and Loews' outside directors seem unfazed by the steep decline in the company's numbers

trolling interest in then struggling CNA for \$100 million. Part of the appeal, analysts say, was that Loews could apply tax advantages from CNA's operating losses to offset income from other, more profitable businesses, such as Lorillard. But CNA's businesses are now being battered on all fronts. Its Continental Casualty Co. unit, a leading property and casualty insurer, took a \$270 million hit in 1992, mostly from Hurricane Andrew. Then there was a \$2 billion addition to reserves in anticipation of future asbestos-related claims.

And because of intense pricing pressure in the industry, Continental has been unable to raise premiums. Net income for the first nine months of 1993 was down 70%, to \$180.1 million. Worse, CNA has been plagued by below-average underwriting results for years. Since 1989, it has paid out an average of \$1.16

...AS ITS KEY BUSINESSES STRUGGLE



*NM: NOT MEASURABLE BECAUSE OF YEAR-EARLIER LOSS

The Corporation

itous decline in the operating results of most of Loews' businesses. The stock "hasn't sagged very much. I don't think it's anything to worry about," says Charles B. Benenson, a Loews board member who has been involved in Manhattan real estate deals with the Tisches for years. "It certainly doesn't cause any concern to me. I have the greatest confidence in the Tisches."

Some Tisch-watchers say Larry would have attacked Loews' problems more aggressively if it weren't for his preoccupation with CBS. His brother, Bob, has

other distractions, too. In 1991, he bought half of the New York Giants football team.

But many on Wall Street believe that an investor as savvy as Larry Tisch won't stand idly by while Loews deteriorates. Some investment bankers speculate that Tisch is just biding his time before selling off one or more of the businesses. "He's constantly tallying the value of what he owns and what he could earn with an alternative use of the money," says an admiring investment banker. But "he has the luxury to

pick his time [to sell]. He's very matic." Delphi's Black reckons L has a potential breakup value of to \$160 a share.

Already, there has been talk on Street that Tisch would like to s oil-rig business, perhaps through lic offering. But it won't happen away. Loews, which spent about million in 1989 and 1991 to acquire world's largest fleet of offshore rig lost \$106 million running the ope since 1989. And there's doubt Tisch's oil rigs are worth anywhere

IS TISCH READYING BLACK ROCK FOR THE BLOCK?

It's not easy getting Barry Diller and Paramount Chairman Martin S. Davis to show up at the same party. But on Nov. 10, Laurence A. Tisch pulled it off. The two set aside their fierce maneuvering for Paramount Communications Inc. to attend a gala at the Metropolitan Museum of Art celebrating the 25th anniversary of *60 Minutes*. David Letterman was on hand as well, to warm up the crowd for remarks by Chairman Tisch.

The *60 Minutes* bash says a lot about why Larry Tisch has held on to CBS Inc. long after the pundits said networks had become dinosaurs. With its huge audiences and respected shows such as *60 Minutes*, CBS still confers great power and prestige on the man who runs the network and owns 23% of its stock. Diller may embody the future of television, but Tisch clearly revels in its cherished past.

TROPHY ASSET. His loyalty to CBS is far more than a vanity play, though. Media experts say that by sticking with the network while it battled bloated costs, anemic ratings, and the worst business downturn in broadcasting history, Tisch has won a shrewd gamble that leaves CBS a trophy asset. Now the network is No. 1 in the ratings, profits are up, and its stock has more than doubled, to a recent 308%, since Tisch became chairman in 1986. "He already looks smart," says Michael N. Garin, an investment banker at Furman Selz Inc.

Garin says "already" because the betting on Wall Street is that Tisch will soon engineer an even bigger coup. Bankers and even some CBS insiders expect the billionaire investor to sell the network in the next two years or so. Such rumors aren't new. But Tisch, who declined to comment for this article, now



VICE-PRESIDENT GORE'S SMASH APPEARANCE: CBS COULD NOW PROFIT FROM SYNDICATING LETTERMAN'S LATE SHOW IN EUROPE

has fresh incentive: Deregulation is freeing up possible suitors, while the current mania over media properties is driving up CBS's value.

Not that Tisch needs a blockbuster deal to make back his original investment. He bought into CBS in 1985 at an average price of about \$125 a share, or a total of \$706 million. But he recouped much of that in a 1990 stock repurchase in which CBS paid shareholders the proceeds from selling its publishing and music divisions in 1987 and 1988 (table). At this point, what Tisch reaps from a sale

of CBS would be a profit. And at the current price, his stake is worth \$1.1 billion.

Does this make Tisch a shrewd investor or lucky? Probably of both. By slashing costs and dumping non-core assets, he certainly has made CBS into an attractive takeover candidate. The other side of the equation is that his work has a dubious reputation as an independent media player. In resolutely refusing to sell his franchise through cable TV or

fangled interactive ventures, he left the network ill-equipped for the slaughter of multimedia. Arcor Inc. and Capital Cities/ABC are expanding aggressively overseas, eyeing equity stakes in promising media companies. Not CBS.

MORTIFIED. That single-minded loyalty to CBS has hurt Tisch dearly in a recent shakeup of the cable industry. CBS and its affiliates successfully lobbied the FCC to allow networks to demand payment from cable operators in return for network signals. After most operators refused to pay, ABC made deals to get distribution for its channels instead. But unlike works, CBS has no presence in the market, lacking that fallback position of being up with nothing at all.

Sources familiar with CBS say he is so mortified by the deal that he is easing out Jay L. Krieger, senior vice-president and chief negotiator who guided the negotiations with operators. Kriegel, who has since departed, hasn't announced where he will be leaving in 1994.

Still, what makes the Tisch family so attractive to potential suitors

HOW TISCH HAS SCORED WITH CBS

ORIGINAL INVESTMENT*	\$706 Million
RETURNS FROM CBS STOCK REPURCHASE/DEC. '90**	479
SHARE OF ANNUAL DIVIDENDS/'85-'92	118
TOTAL RETURN/'85-'92	\$597 Million
MARKET VALUE OF CURRENT HOLDINGS	\$1,110 Million

*ESTIMATE BASED ON 24% OF CBS SHARES AT AVERAGE PRICE OF \$125

**BASED ON 24% SHARE OF \$2 BILLION BUYBACK

DATA: COMPANY REPORTS, BUSINESS WEEK ESTIMATES

paid. "We know they're under
in this," says another investment
"The question is, can they engi-
public offering and make them-
whole?" Right now, with oil stocks
y in the dumps, the answer is
y no.

the outlook for Loews' other
ses just as bleak, no one expects
o pull off any big deals in the
ure. But with anemic profits and
stock price, there's no doubt
ews is in sore need of a little of
Tisch magic.

Elizabeth Lesly, with Suzanne
in New York

ith Tisch than with William S.
ounder. Paley created the famil-
and assembled the network's
iated TV stations. Both have be-
as assets in an era of proliferat-
s and fragmenting audiences.
o style itself as a beacon for
ed by 500 channels: "We will
mpass point in the navigation
redicts George F. Schweitzer,
CBS Marketing.

FIRES. What's more, the net-
broadcasting business should
more profitable. Thanks to
fting of an antitrust consent
can own a financial stake in
ogramming and reap revenues
s syndication of those shows.
produces *Dave's World*, a new
at columnist Dave Barry. And
icked around the idea of syn-
erman's popular *Late Show* in
a without the extra revenue,
ity is boosting profits. Alan J.
media analyst at PaineWeb-
ires CBS's operating income
%, to \$310 million, in 1993, on
of \$3.5 billion.

fect of deregulation will be to
ood studios and other media
pursue mergers or acquisi-
works. Who might buy CBS?
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ion system for its programs.
Disney CEO Michael D. Eisner
d Tisch with offers. But the
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ulk aside, it's clear that CBS
radically under Tisch's tough
e days, he is projecting a dif-
hat of a buoyant broadcaster
ced in first place. CBS should
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gaining fast. Given that and
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a satisfied investor cashing

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BELLCORE TO ITS OWNERS: DON'T HANG UP

Under pressure, the Bells' R&D arm offers a grand vision

It's bad enough that Bellcore CEO George H. Heilmeier has seven bosses. What's worse is that they often disagree. In the past year, the seven Baby Bells that own Bellcore, the \$1 billion-a-year research-and-engineering consortium, have gone from rivalrous siblings to outright combatants.

So is Heilmeier ducking out of the line of fire? Not a bit. This demanding Pentagon veteran is actually raising his sights for Bellcore. He wants the Livingston (N.J.) consortium to be the architect of the coming Information Superhighway. Bellcore, he says, could coordinate U.S. industry's development of the highway in much the same way as TRW Inc. coordinated development of the first intercontinental ballistic missiles in the 1950s.

Like a daring chess player who strikes from a vulnerable position, Heilmeier is reaching for a larger role at a time when his organization is under tremendous pressure. Its seven owners are pushing Bellcore to economize, and they are cutting back on jointly funded work—while warning that they will take their business elsewhere if Bellcore can't supply the software they need for futuristic networks.

WORKER BEES. Grabbing a central role in designing the Information Superhighway could give Bellcore fresh relevance. Heilmeier expects soon to announce a "Collaboratory," in which phone companies and others will study technical issues surrounding the highway. And he says the Collaboratory will be more consumer-oriented and broader in impact

than the National Information Infrastructure Testbed led by American Telephone & Telegraph Co.

Whether Heilmeier can accomplish his grand plan is far from clear. He has done a lot of things right since March, 1991, when he took over a consortium that suffered from bloated costs and a lack of business focus. He has pared expenses, slashed employment 16% without cutting the worker-bee technical staff, and tailored more work to the needs of each Bell company—in response to their demands to reduce the amount of work that all seven must pay for (charts). Bellcore ably writes software, tests products, and helps develop communications standards. Still, turning it into a master architect is another matter.

The next half-year will tell a lot. A study group of the owners recently concluded that the Bellcore board needs to hammer out a new system of governance in the next six months. While the group's preliminary report is secret, Heilmeier predicts that the new rules will make it easier for the Bells to work one-on-one with Bellcore. Today, they're discouraged from cooperating on anything sensitive—because 18 months after a project is completed, any other Bell can view the results for a price. That just doesn't cut it in these competitive times.

There's a drawback, however, to more custom jobs: Bellcore can't defray its costs among multiple clients. Vice-Pres-

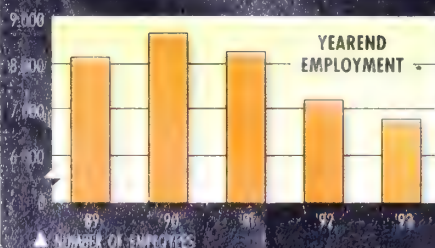


HEILMEIER HAS TO PLEASE SEVEN WARRING MASTERS

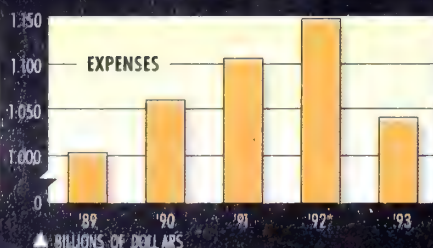
ident Robert W. Lucky, a star from AT&T Bell Laboratories who heads Bellcore's applied research, speaks trying to preserve a "precious no-ground" where the Bells can keep operating. Unfortunately, he says, an area of true mutuality is shrinking.

Tarnished jewels. The Bellcore group is wrestling with another dilemma: Can Bellcore win industry's reputation as a trusted, neutral info-highway architect while competing with that of AT&T and Electronic Data Systems Corp. to sell software for parts of the highway—such as video on demand. Some argue that Bellcore will be too close to steer standards in a direction that favors its own products. Says AT&T's Systems President David Stone: "If they try to be competitive in the product marketplace, then they have the kind of biases that would taint their neutrality." Heilmeier says that Bellcore doesn't aspire to set standards, only to contribute to them. But the issue remains. "It's a critical question" to resolve, says David

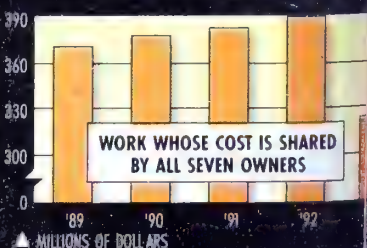
BELLCORE IS CUTTING STAFF...



...AND RESTRAINING SPENDING...



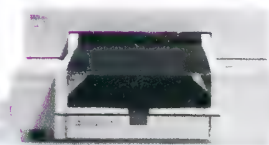
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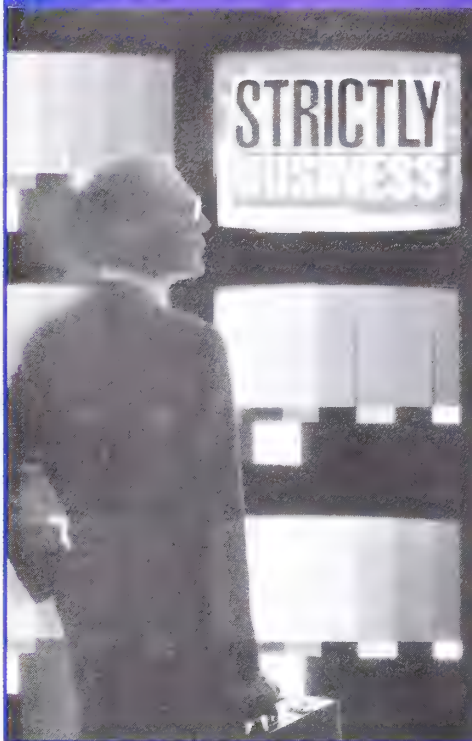
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tlter, executive vice-president for s
and technology at BellSouth Corp.

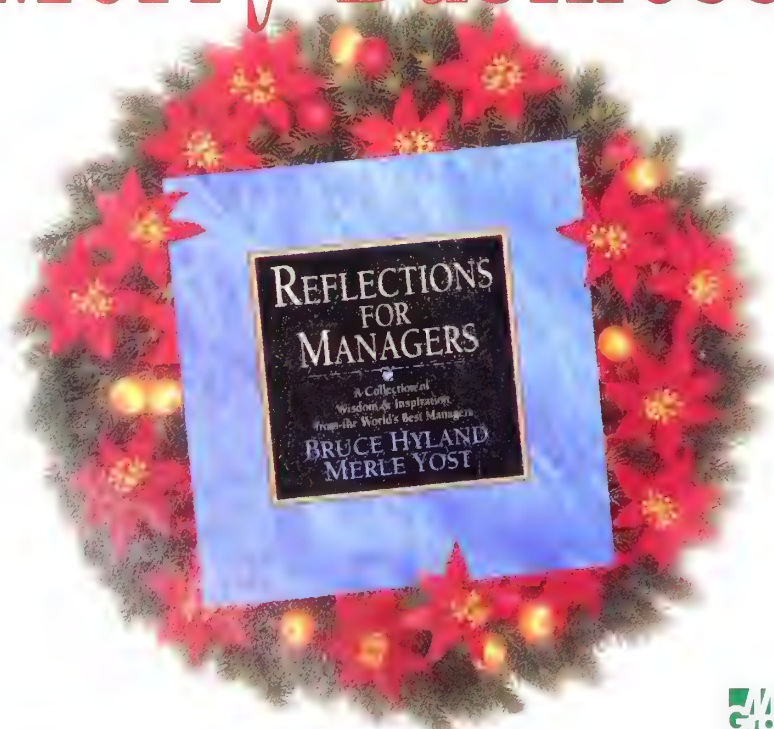
Customization and neutrality are only issues Heilmeier has to grapple. The consent decree that broke Bell System continues to bar Bell from the vital fields of long distance hardware design. Moreover, Bell crown jewels—55 million lines of c equipping and running local phone works—are losing their luster. The action is moving into such fields as custom-tailored billing and interactive, where the consortium has no expertise. For those, the Bells must turn to other suppliers—and spend less. Says Edward J. Hendrick, senior implementation officer at U S Advanced Technologies: "I don't want to pay one-seventh of anything I don't want." **"BUNCH OF IDIOTS."** To the gung-ho Heilmeier, all of this is more challenge than threat. He came to Bellcore with a long resumé: a PhD from Princeton University in solid-state materials, pioneering work in liquid-crystal displays at RCA, two years as director of the tagon's elite Advanced Research Projects Agency, and a stint as chief technical officer at Texas Instruments before working to eradicate Bellcore's archaic style and increase responsiveness to Bell customers. Along the way, he's had some feelings. Complains one manager: "There was a sense from that 'you guys down there are a bunch of idiots. We up here know what to do, and you're not doing it.'"

Heilmeier forged ahead, however, and bulked up Bellcore's expertise in areas where while slashing work in the physical sciences, in which the seven owners had little interest. He based management on their ability to meet budgets and satisfy customers. Bellcore's costs have come in under budget for the past three years. And sales to non-Bell customers such as GTE Corp. and Sprint have risen to 13% of total revenues from 8% in 1990. As for the critics, Heilmeier says: "There are some people who will never forgive you for building a great company without them."

Despite Heilmeier's efforts to keep Bellcore, the centrifugal forces working on it are powerful. Bell Atlantic chairman Raymond W. Smith, who says he's happy with Bellcore, nonetheless maintains that when Bell Atlantic acquires something unique—as it increasingly does—"we go elsewhere." He predicts that in coming years "there may be more than seven owners." Bellcore's importance to disappear. For Heilmeier, though, taking on the Information Age highway will be a lot tougher than putting together an ICBM.

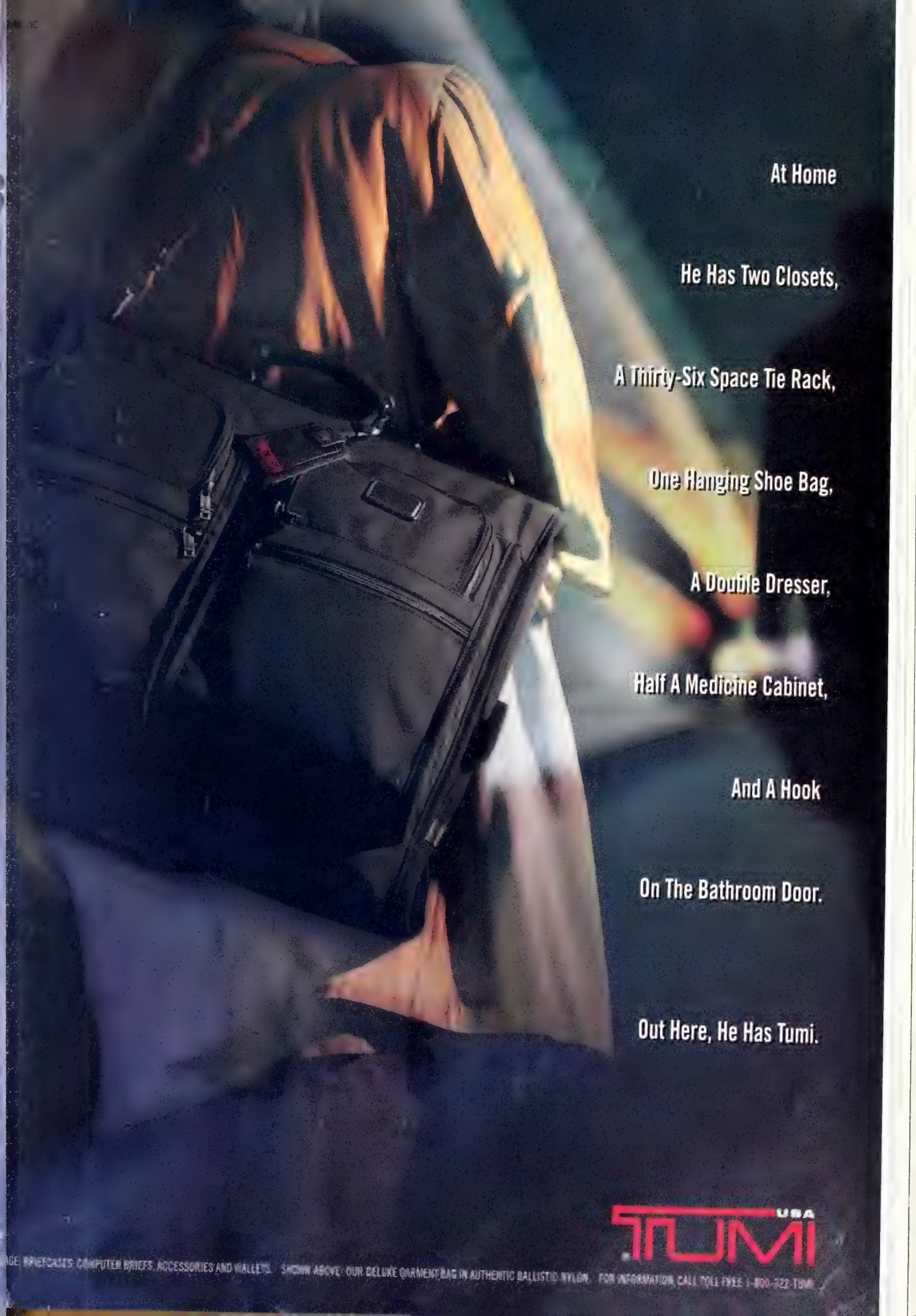
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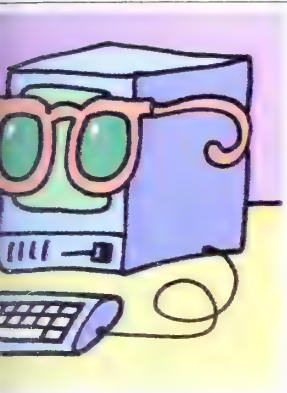
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Developments to Watch

EMILY T. SMITH

LIGHT-SPEED COMPUTERS AND THE CORNER?



A long-time goal of computer scientists is a machine that uses beams of light instead of electrons to crunch information. Such "optoelectronic" computers would offer a leap in speed and performance—and use a lot less power. But so far, the optical processors built at places such as AT&T Bell Labs have only been able to do simple calculations.

Comp Corp. in Lake Tahoe, Nev., has taken a big step. Backed by the Pentagon's Star Wars program, the company has built a machine that can execute up to 12 billion operations per second, which rivals the speed of conventional high-performance computers. The leap in speed comes from arrays of lasers with scores of light beams instead of electrons, as earlier machines did. OptiComp is already working on a machine that will run at least 100 times faster. For other chores, optoelectronic computers are especially well-suited for high-speed searches of data bases or number-crunching in low-power satellites.

UZBEKISTAN GENIUS

In 1989, U.S. entrepreneur Mats O. Ingemanson traveled to the Soviet Union to tap its scientific talent. Impressed with the Uzbek Academy of Sciences in Tashkent, he recently founded Mitech Scientific Corp. in Flanders, Belgium, to commercialize the academy's inventions.

Mitech is poised to take off. The company has applied for U.S. patents on 11 products, ranging from a two-day water purifier to a water-desalination system. They all use arrays of infrared radiation to speed up various processes and thus save energy—without creating damaging heat. The first idea to reach production, within 90 days, will be a dry-heat sterilizer for medical instruments. Mitech says it can sterilize in 3 minutes vs. 60 for an autoclave using the same 1,500 watts of power. And it will cost about \$3,500 for an autoclave. Ingemanson figures Mitech will need \$30 million to bring all the Uzbek-invented products to market. But he believes the company might reach \$1 billion in annual sales by the year 2000. Ingemanson has raised \$700,000 so far, which along with his own investment is being used to launch the sterilizer.

DIGITAL TRACER TRACK MARKET TAPES

Movie lawbreakers of pirated movies and music beware! New audio fingerprinting technology from Cyphertech Inc. may soon track down your source. The company's on-to-based company's technology protects film, video and audiotape by inserting a unique digital code at the time of production. This invisible code can be randomly

woven through music, speech, perceived silence, and sound effects without being picked up by the human ear or interfering with sound quality. A data base links the codes with copyright and source information. If a hit movie escapes from a studio and is copied and sold, that digital code is automatically transferred to each copy, so it's easy to trace from whom it was gotten. The codes can also be used to verify when a commercial or program was aired. So Cyphertech envisions setting up listening posts in major cities that would pick up and decode the signal when programs air. That way, media research firms and studios would know what played and how often. Cyphertech President Daniel Wasserman says the product will be on the market by mid-1994.

HOW TO FIND A MOLECULE IN A HAYSTACK

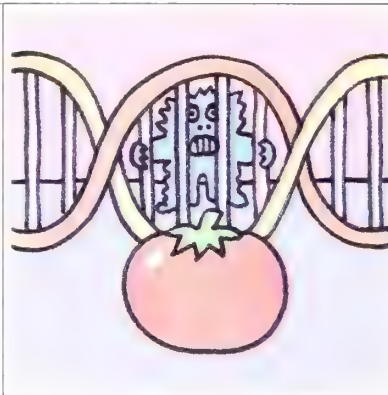
The right molecule can make a fortune by treating a disease or creating a new property in a material. Companies use techniques such as nuclear magnetic-resonance imaging to gather information about the structures of thousands of promising molecules. Often, though, these data languish in filing systems, so companies can essentially "lose" information on the one molecule in 10,000 that might lead to a breakthrough.

Help may be on the way in the form of a new computer-based system, developed by scientists at the University of Georgia's Complex Carbohydrate Research Center (CCRC), that can quickly identify molecules based on the data generated by many types of analytical instruments. So-called artificial neural networks, which identify molecules by matching patterns in the data and by "learning" through experience to match more precisely, make the new system work. The university has spun off ANN Technology Inc. to commercialize the technology. If ANN secures further financing, an entry-level system is expected on the market within six months, says Peter Albersheim, co-director of the CCRC.

HUNTING DOWN GENES THAT SAY 'NO' TO DISEASE

Scientists have tried in vain to pinpoint the genes in crops that resist disease. If they could insert them in plants, it could help increase yields and curb pesticide use.

For the first time, researchers at Cornell University have cloned such a gene in tomatoes. Resistance in plants occurs most often when a gene in an invading bacterium



triggers a specific resistance gene in the plant. The Cornell researchers used the *Pseudomonas syringae*, which causes bacterial speck disease in tomatoes, to activate the so-called Pto resistance gene. They adapted map-based cloning, a technique used to find human genes by mapping their location on chromosomes, to pinpoint the Pto gene in tomatoes. They then inserted it into tomato plants, which became resistant to the disease. The researchers have thus laid a foundation for other scientists to use gene-mapping to find critical plant genes faster and with less knowledge of the molecular biology of the gene than is possible with other methods.

EDITED BY AMY DUNKIN

SPECIAL TECHNOLOGY REPORT

GETTING THE MOST BYTE FOR YOUR BUCK

The phone rings and nobody's home. Instead of being picked up by a conventional answering machine, the call is taken by the PC. "Hi, we can't answer the computer right now. Please leave a message." That's the scene in a current TV ad for Compaq's Presario, a line of personal computers aimed squarely at neophyte buyers.

PCs that answer the phone? It's part of the noble yet still-elusive effort to transform the PC into a no-brainer—a home appliance that can be taken out of the carton, plugged in, and put to work immediately. The Presario, along with Apple's Macintosh Performa and IBM's PS/1, are helping to bring that ballyhooed vision closer to reality.

OBsolescence. At the moment, less than a third of American homes have a PC, and 4 of 10 adults surveyed by IBM don't use one at home or the office. Computers are still too complex for many people. And, the reasoning goes, why buy anyway, when the darn things are seemingly obsolete by the time you figure them out? Indeed, the world of microprocessors and megabytes is a nerve-racking place for the uninitiated. If your geeky pal who plunked down \$3,000 for a computer just three years ago is whining about owning an inadequate system, what can you, a novice, expect?



Quite a bit, actually. PCs, however gradually, are getting easier to use, and recent bloodletting in the industry has created a price-cutting atmosphere. Moreover, \$2,000 to \$3,000 today buys a lot more computing power than it did a year or two ago. For that price, you might also take home an ink-jet printer, a fax modem to transmit documents or connect to on-line services, and a CD-ROM drive

that runs the latest multimedia software on compact disks. "It's no longer a price war, it's a value war," says Robert Bauer Jr., director of North American desktop marketing at Compaq Computer.

One measure of value: a computer bundled with gobs of software. Just about all IBM-style machines come with the latest version of Microsoft Windows, which lets users launch software programs

by clicking with a mouse on small icons. Buyers of more sophisticated systems from Gateway 2000, a leading online dealer, can choose among programs like Microsoft Excel for Windows spreadsheets, several other word processing programs. Some IBM models are preloaded with 11 Disney titles, including Mickey Mouse ABC's, for kids, and Stunt Island, a game for teenagers.

PRELOADED. The Performa line (\$1,500 to \$2,050), billed as "family Macintosh," can be run right out of the box. The machines include an animated tutorial for novices, in stereo sound, a fax modem, and a spreadsheet processor, and are preloaded with software. And as ever, the Mac aficionados correctly point out, have long set the standard for ease of use.

Like some Christmas mas, Compaq's "one" Presario 4000 combines the monolithic computer into a box design, and includes such pre-installed software as Quicken, a popular personal-finance package. Presario's built-in analog machine adds voice commands: "Press one for Sue, press two for Bob." What's more, Presario is almost "plug and play." Users connect the power cord to the wall, the keyboard and mouse to the back of the system, and a screen Welcome Center explains how computers work. The Presario comes

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THE PRESARIO, FROM COMPAQ, IS ALMOST A "PLUG AND PLAY" MACHINE

operate a small business at home. Folks concerned about obsolescence can buy 486 machines with chip sockets for upgrading to Pentium. Of course, by the time you're ready for a Pentium, you might also crave a new monitor and a more capacious hard drive—in other words, a whole new system might make more sense. The first Power PCs, based on new microprocessors being developed by Apple, IBM, and Motorola, will be aimed at higher-end customers. They will appear by mid-1994.

Regardless of the microprocessor, buyers shouldn't skimp on random-access memory, or RAM, a PC's internal memory. These days, most systems offer at least 4 megabytes, though it's worth an extra \$200 to \$300 to spring for 8 MB or more, especially if

you're running Windows. Look, too, for a system with enough free expansion slots and so-called drive bays that let you plug in an internal CD-ROM, circuit cards, or other add-ons.

The next basic requirement is a hard drive big enough to store all of your programs and files. Although you might save a few hundred dollars by buying a machine with 120 MB, you'll probably regret your parsimony in a hurry. A hard drive with a capacity of at least 200 MB is becoming more common, and you shouldn't be averse to splurging for 300-MB drive or even bigger. If you think that's overkill, consider that Windows itself takes up 10 MB on your hard drive and a new flight simulator game, Strike Commander from Origin Systems, runs best when it claims 41 MB on your hard drive and 8 MB of RAM.

To exploit graphics best, consider a system with a 15-inch color monitor, about a \$100 step up from a standard 14-inch model. Consumers should insist on noninterlaced monitors, which are less prone to annoying flicker than

interlaced versions, and a super-VGA model with a dot pitch of 0.28 or lower, a measure of picture sharpness. Some computer vendors try to stick you with a cheap monitor. Before you buy, make sure the retailer will take back a monitor you're not satisfied with.

TRICKY LINK-UPS. A modem that can send and receive faxes is also a handy addition and will allow you to tap into Prodigy, CompuServe, and countless computer bulletin boards. It's worth spending \$170 or so for a speedy fax modem like the U.S. Robotics Sportster that can transfer data at a 14,400-baud rate, in techno-speak, rather than a 2,400-baud laggard, such as the one the Compaq Presarios have.

To add multimedia, which blends video with animation, text, and sound, you'll need a CD-ROM drive, sound card (on a circuit board that plugs inside the PC), and speakers. If you already own a PC, Creative Labs and Media Vision sell multimedia upgrade kits starting at around \$350. Shoppers who are buying from scratch should choose, at minimum, a double-speed CD-ROM drive that can transfer data from the disk to the PC at about 300 kilobytes (300,000 characters) per second. New, triple-speed drives (450 kilobytes) cost about \$500.

A decent multimedia-ready PC costs \$2,500 or more but can save a lot of installation headaches. CD-ROM drives, electronic circuit boards, and other peripherals don't always mesh well, so when possible, let the manufacturer figure out how to get all the parts to work together.

No less an industry luminary than Microsoft Chairman Bill Gates admits that installing CD-ROMs and sound cards is difficult, and Microsoft, Compaq, and Intel are working on a plug-and-play standard that's scheduled to be out by next year. That's welcome news, because all in all, buying a PC is still a lot more painful than it ought to be.

Edward Baig

HOW MUCH COMPUTER CAN YOU BUY?

The configurations below show what you might get in a typical system. Actual prices vary widely depending on brand, where you buy, and the trade-offs you make. For instance, if you opt for a bigger monitor, you might have to settle for a smaller hard drive or less memory. If you go with a CD-ROM, you might not be able to afford a laser printer.

Microprocessor	Ram Megabytes	Hard drive MB	Monitor Inches	Printer	CD-ROM Speed
UNDER \$1,000					
386 DX or 486SX	4	80 to 170	14	Dot matrix	None
\$1,000 TO \$2,000					
486DX	4 to 8	200 to 300	14 or 15	Ink jet	Single/ Double
\$2,000 TO \$3,000					
486DX2	8 to 16	340 plus	15 or 17	Ink jet or laser	Double/ Triple
\$3,000 PLUS					
Pentium	8 to 16	400 plus	15 or 17	Laser	Double/ Triple

DATA: BUSINESS WEEK

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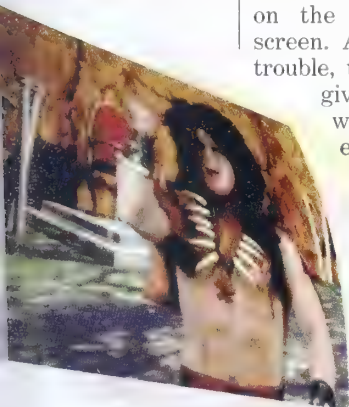
Neil Cavuto. Karen Gibbs. They're on there following the Fed. Keeping an eye on inflation. Doing the ground work, you won't have to. They know interest rates. And how those rates will affect YOUR wallet. They know what makes them move. And how those moves will impact the economy. Neil Cavuto, a highly-regarded credit markets analyst, is also master of the CEO interview and former New York Bureau Chief of PBS's "The Nightly Business Report." Karen Gibbs, a well-regarded author on the bond market, also has nine years of financial experience at Dean Witter, where she held various positions including Vice President and Senior Futures Analyst. Cavuto and Gibbs. Watch them. In this ever-changing financial world, it's nice to know someone has your best interests at heart.



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decade ago, one of the most popular personal computer games was a creature program called Zork. Like most other early-on titles, Zork came on a floppy disk and had many limitations. Instead of colorful pictures, you had to rely on text commands, such as "You are in an open field, a white house." They had to type instructions such as "open door," and the computer would respond with text.

The new CD-ROM version of Zork, re-



ZORK'S RETURN
THE QUEST
FACTORS
TO YOU

October by software division, bears little resemblance to the original. Zork is still basically fantasy where players can be heroes on a quest to slay an evil sorcerer instead of descriptions, dialogues of actors, and the characters appear on-screen to speak to you. It involves various puzzles. To solve a puzzle, you click on an icon, played point it at the screen.

Now, software in general has undergone radical transformations. Easy-to-use titles, such as Microsoft Windows and Apple's Macintosh, which make difficult text commands small on-screen

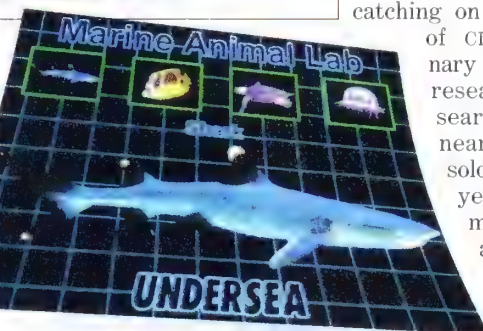
SPECIAL TECHNOLOGY REPORT

PUMPED-UP SOFTWARE THAT'S EASIER TO MASTER

icons or pictures that you click on, have made mastering software much less of a chore. In addition, clever graphics prompt users to carry out complex tasks. For example, a program that keeps track of your expenses might ask you to enter information on a checkbook-like form on the computer screen. And if you run into trouble, today's software can give you instructions—written, verbal, or even on video.

WordPerfect 6.0 for Windows, the newest version of the popular word processing program, shows how far software has come. Owners of previous versions had to remember quirky function

commands or move the mouse to menus on top of the screen to do simple tasks, such as check for spelling errors. In the new WordPerfect, frequently used commands are reduced to icons on a tool bar. For example, if you want to change type styles, you can place a font



UNDERSEA ADVENTURE: MARINE BIOLOGY AND A TREASURE HUNT

button along the edge of the screen. To switch fonts, just click the button with your mouse and choose a font from the list that appears.

MEGABYTE HOGS. The trade-off for simplicity and all the added functions is that few programs can be contained any longer on a single floppy disk. WordPerfect 6.0 comes packaged on 12 floppies and hogs up to 32 megabytes of hard-drive space. Such useful yet complex software needs more powerful hardware, rendering many older PC systems obsolete.

If traditional floppy-disk-based programs have gotten more sophisticated, CD-ROMs are just starting to come into their own. Each CD-ROM (for compact-disk, read-only memory) can hold more than 680 megabytes of information, equal to more than 470 floppy disks. With

this still-developing multimedia technology, software makers can cram computer-generated text and graphics along with digitized audio and video onto one shiny platter.

The computing public is catching on to the potential of CD-ROMs. Preliminary data from market researcher Link Research show that nearly 718,000 PCs sold in the U.S. this year will be multimedia machines, and more than 550,000 upgrade kits will be installed on older systems—

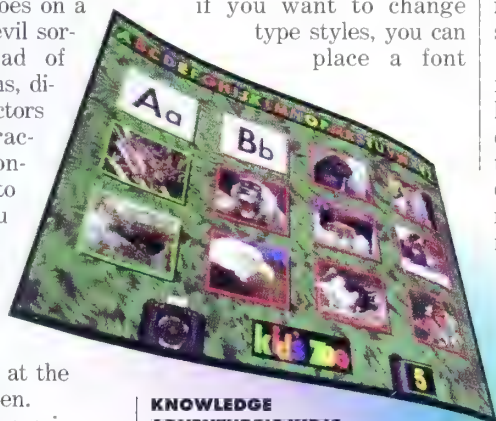
nearly five times as many as last year. That has software publishers rushing to produce an abundance of multimedia titles covering a broad spectrum of topics.

One of the most interesting categories is personal productivity. This includes programs such as Intuit's best-selling



MICROSOFT'S ENCARTA: A TIME LINE IN A MULTIMEDIA ENCYCLOPEDIA

personal-finance package, Quicken. Intuit recently introduced a \$70 multimedia version for the Windows operating system that includes a



KNOWLEDGE ADVENTURE'S KID'S ZOO: LEARNING ABOUT ANIMALS VIA FULL-MOTION VIDEO CLIPS

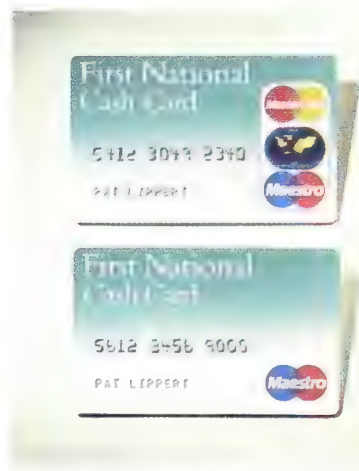
Our debit
program considers
everything.

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Even *bottom line.*



You may find it heartening that a program achieving such worldwide acceptance hasn't forgotten about the fundamentals of profit. From the very outset, Maestro[®] from MasterCard[®] keeps your operating costs low: the way to get into the program is with the networks and systems you're already using. And because we don't



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Personal Business

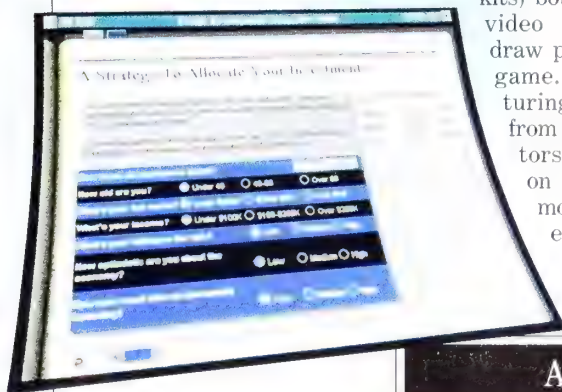
digitized version of *The Wall Street Journal's Video Guide to Money and Markets* and other tools, such as an income tax estimator. The video guide teaches novices about how the stock market works by presenting short film clips with narration in a small corner of the computer screen. According to Peter Dumanian, a product manager for Intuit, orders for the CD-ROM have so far been triple what was initially expected, thanks to high consumer

events spanning the past century—including speeches from the Middle East peace accords signed last June. Another interesting title from Microsoft is the \$80 *Dinosaurs*, which teaches kids about the prehistoric creatures and brings them back to life through computer animation. Where in the World is Carmen Sandiego?, a \$60 CD-ROM from Broderbund Software, blurs the line between education and entertainment by teaching children basic geography in the form of a cops-and-robbers game.

Few categories are as tailor-made for the CD-ROM format as computer games. Return to Zork and the \$80 *Critical Path* by Media Vision (the same company that makes multimedia hardware-upgrade kits) both use digitized video and music to draw players into the game. A movie featuring real actors from the Screen Actors Guild unfolds on the computer's monitor, and players move the game along by assisting the characters.

demand for information on how to invest in stocks and bonds.

Intuit's competitors are sure to follow suit. Meca Software in Fairfield, Conn., is



INTUIT'S QUICKEN: A PERSONAL-FINANCE PACKAGE WITH VIDEO AND VOICE GUIDANCE

working on a CD-ROM-based version of its TaxCut program with digitized video that will give advice on preparing a 1993 federal income tax return.

BLURRING LINES. Education is another area where CD-ROMs are sure to take off. Microsoft's Encarta multimedia encyclopedia, a reference work containing more than 96 minutes of video segments and 8 hours of audio clips, is a standout. Owners can search for global topics and



MICROSOFT'S DINOSAURS: JURASSIC SPARK, COMPUTER STYLE

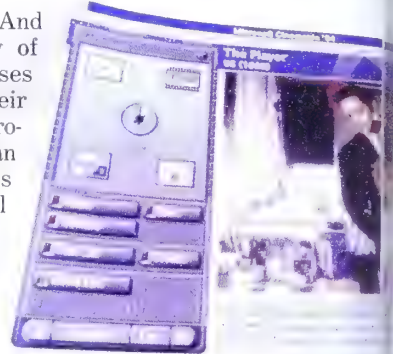
A far cry from the text-only games of yore, these programs are just the beginning of the so-called digital future, when Hollywood and computer companies will work jointly to produce interactive movies and software.

REPAIRS VIA PC. And there are plenty of other nascent uses for CD-ROMs. Their relatively cheap production costs mean software makers are putting all sorts of data on CD-ROM. Looking for a videotape to curl up with on a rainy Saturday? Microsoft's \$80 *Cinemania '94* gives you thousands of movie reviews and some film clips that can guide you in choosing rentals from the video store.

Many print publishers are developing multimedia editions of magazines, including McGraw-Hill and its special

CD-ROM edition *BUSINESS WEEK 100*. Others, such as in Los Gatos, Cal., producing children's magazines, not only store music but also offer a demonstration of popularware for adults and kids out.

But what if you do a CD-ROM drive? Software manufacturers such as Edge Adventure in Los Gatos, Calif., have produced multimedia works on floppy disks. Knowledge Venture's education



CINEMANIA '94 FROM MICROSOFT: A CHANCE TO LOOK BEFORE YOU RENT

grams, such as *Undersea Adventure* and *Kid's Zoo*, can show digitized video clips and narrations from your PC's hard drive. Other companies, like Books That Work in Alto, Calif., produce floppy-disk-only titles. In its latest effort, the \$50 *Holiday Toolkit*, teaches users how to make repairs around the house.

Even as software makers try to perfect these technologies, newer developments are cropping up. Companies are working on voice recognition that would allow the user to understand your commands and "virtuality" programs that immerse the user in a artificial computer-generated world. The software that will one day return to Zork seem that.

A MULTIMEDIA GIFT LIST

Software	Company	Price	Description
ENCARTA	Microsoft	\$99*	A CD-ROM encyclopedia with audio clips and pictures covering events as recent as the Mideast peace accord
UNDERSEA ADVENTURE	Knowledge Adventure	60	Teaches about sea animals using audio and video clips that don't require a CD-ROM drive
RETURN TO ZORK	Activision	80	The 1990s sequel of a 1980s computer game that features digitized videos of real actors such as Jason Hervey
QUICKEN FOR WINDOWS CD-ROM Deluxe Edition	Intuit	70**	The best-selling personal finance software now comes with video portions that explain all about the stock market

*Expires Dec. 31, 1993; full retail price is \$395

**Current Quicken owners pay only \$59.95

DATA: BUSINESS WEEK



THE 1993 BUSINESS WEEK
SYMPOSIUM OF CHIEF EXECUTIVE OFFICERS

REINVENTING
AMERICA

What must be done to ensure that America maintains its economic leadership into the next millennium? Drawing on the challenges raised in *Business Week's* October Fall Bonus Issue entitled "Reinventing America," *Business Week* Executive Programs dedicated its 1993 Symposium of Chief Executive Officers to respond to this question. America's most outstanding corporate leaders and government officials gathered in Washington to search for answers.

The tremendous geopolitical transformations of the past five years have thrust an additional two and a half billion people into the world economy. Economic liberalization in China, India, Eastern Europe, and Latin America has created vast potential markets for American goods and services; it is also creating tougher competition not only from technologically and organizationally sophisticated Western Europe and East Asia, but also from workers in developing nations, who are forcing American labor to become even more productive in order to remain the most cost-efficient in the world.

"There are a lot of countries now thinking, 'How do I get into this race?'" says Jonathan C. Crane, MCI Communication

Corporation's executive vice president. "They are facing the fact that technology is allowing foreign companies to come in and take away revenue and opportunity. Technology is definitely going to break down barriers, it's going to blow open the whole world. There's going to be wide open global competition before this new century turns."

MANAGING CHANGE

To survive in the globalized marketplace of the future, U.S. corporations must adapt themselves to new circumstances. The ability to respond effectively to changing economic conditions will be of paramount importance.

George B. Bennett, chairman of Symmetrix, Inc., approaches the issue with the assertion that "organizations don't change until external catastrophes bring them near the edge of annihilation. This is unfortunate, because at that point, they are usually low on cash resources and have cynical, demoralized personnel."

"The secret of successful change," explains Bennett, "seems to be to create self-inflicted catastrophes so as not to have the threat imposed externally. These can usually be created by setting aggressive, external



threat-based goals and then demanding that they be attained in aggressively short time-frames."

But how can a corporation be restructured without disrupting established methods of operation and bringing work to a standstill? Bennett suggests what he calls "corporate cannibalism."

"The idea is to build a greenhouse in which to nurture the new order – to test the new organizational forms and the creative use of new technology – to break the rules and invent the future. The greenhouse is then encouraged to cannibalize the customer base and staff of the old organization over time." Bennett admits that this is a controversial strategy, but urges hesitant managers, "Notice what MCI has done to AT&T. Notice what Compaq has done to IBM. You begin to see what a cannibalistic strategy can do."

Compaq President and CEO Eckhard Pfeiffer provided a specific example of corporate cannibalism as he described his company's experience with rapidly-changing markets: "After nearly a decade of record-setting performance, we faced our first two quarters of decline. As the market environment was changing, customers kept asking us for different products, better response to their needs. We started falling behind."

Compaq regained leadership of its industry, says Pfeiffer, by restructuring itself. Compaq created an experimental division whose success was used to "get the whole company behind the new paradigm."

Suggesting that a bleak future faces corporations which are unable or unwilling to change to meet new market conditions, Pfeiffer points out that "the companies that have dominated the industry for decades – IBM, Digital Equipment, and other major brands of the '60s, '70s, and '80s – are in deep trouble. In the second quarter of this year, none of these companies were making any money."



"THE IDEA IS TO BUILD A GREENHOUSE IN WHICH TO NURTURE THE NEW ORDER – TO TEST THE NEW ORGANIZATIONAL FORMS AND THE CREATIVE USE OF NEW TECHNOLOGY – TO BREAK THE RULES AND INVENT THE FUTURE."

*George B. Bennett,
Chairman,
Symetrics, Inc.*



"UNLESS EVERY EMPLOYEE HAS VERY SPECIFIC GOALS AND A CLEAR UNDERSTANDING OF HIS OR HER ROLE, EMPOWERMENT BECOMES ANARCHY, CREATING FRUSTRATED AND INEFFECTIVE MANAGERS."

*Dana G. Mead,
President and COO,
Tenneco, Inc.*

Change nearly came too late for Tenneco, Inc., the Houston-based diversified industrial corporation. Dana G. Mead, the company president and COO, recalls, "We realized that at most, we had two to three years to do something. Otherwise, the opportunities of the present would suddenly become our past."

Mead's solution was to institute a results-oriented, initiative-based management style, "giving every employee a clear picture of the results we expected and their role in getting them, as well as an understanding of how those results affect the organization's overall performance." Without such an understanding, Mead warns, "empowerment becomes nothing less than anarchy, quickly creating frustrated and ineffective managers."

The success Tenneco realized with this strategy was nothing short of astounding: the company's operating earnings and quarterly income soared, driving its debt ratio sharply down. Tenneco rapidly became a darling of Wall Street, its stock appreciating 69% in the last 22 months.

PRODUCTIVITY THROUGH CREATIVITY

Corporate leaders across the country are realizing that initiative and flexibility and the changes that drive them, must not be limited to a company's management, but extended into its creative personnel as well. A "Quick-TallySM" poll of the CEOs at the symposium revealed that while 84% consider creativity a reason for the success of their company, only 35% say that creativity is explicitly expressed in their corporate culture. Charles M. Leighton, chairman and CEO of CML, producer of Nordic-Track exercise equipment and operator of the Britches of Georgetown clothing retailer, contends that "If there was a key buzzword to success in the '80s, it was quality. To us, the key buzzword in the '90s is going to be creativity."

But how best to foster a creative environment within a corporation? Prof. Jack Kao of Harvard Business School explains that large corporations often become of



nd bureaucratic, stifling the ability
ative people to collaborate on and
ce new ideas.

o likens traditional corporate organiza-
to the game of golf: an idea moves
tially through eighteen offices, only
erson at a time sees it, and any one can
He proposes a different model: "What
it be like if, instead, the innovation
s was like pinball, where the key is
ng an internal circus environment for
deas?" This would create a more cre-
y-oriented organization, "a network
an resources where a hard structure
ly irrelevant."

bert L. Nardelli, president and CEO
Transportation Systems, provides a
c example of the structural change
ted by Kao. Describing the manage-
paradigm of GE Chief Jack Welch,
li explains, "There is one clear mes-
our approach, and that is the value
undaryless culture," which he
es as "breaking down the horizontal
s between functions and the vertical
s between organizational layers."
perational terms, Nardelli says, this
that employees are encouraged to
ate with one another and given
rable freedom to turn their creativi-
productivity: "The *what* is deter-
many times, by the customer and
business environment. The *how* is
olvement that we are trying to bring
ur people. Read the market, deter-
at has to be done, and let the people
it how to do it."

GOING WITH TECHNOLOGY

ng the market correctly is essential to
uccess of any business. But the ongo-
ss of globalization makes this more
than ever before. As a company's
base expands and becomes more
ow can executives keep up with the
of consumers around the world?

Jonathan Crane believes that the
accurate market data is the rationale



"SPEED OF RESPONSE HAS
JOINED ACCURACY, CRAFTS-
MANSHIP, CREATIVITY,
RESOURCEFULNESS, AND
OTHER TRADITIONAL
MEASURES OF QUALITY.
AND IN MANY CASES,
TIMING RANKS FIRST."

*Jonathan C. Crane,
Executive Vice President
MCI Communications Corporation*



"IT ALL COMES DOWN TO
THE VALUE THE CUSTOMER IS
LOOKING FOR. OUR EFFORTS
ARE GUIDED BY CUSTOMER
FOCUS, CUSTOMER SATIS-
FACTION, ADDRESSING CUS-
TOMER NEEDS."

*Eckhard Pfaffner,
President and CEO
Compaq Computer Corporation*

for new technologies and the key to success
in the future. He calls attention to the
tremendous advances in computer and
telecommunications technology that allow
information to be pushed further, faster.
"But," Crane says, "it's up to you and all of
us together to understand *why*."

Crane proposes that people who have
grown accustomed to using cash machines,
computerized ticket services, and microwave
ovens expect comparable speed and effi-
ciency in all areas of their lives: "Speed of
response has joined accuracy, craftsmanship,
creativity, resourcefulness, and other tradi-
tional measures of quality. And in many
cases, timing actually ranks first."

Michael P. Schulhof, president and
CEO of Sony Corporation of America, con-
curred with Crane's analysis, stressing the
complexity of international markets and
noting that while many people expect glob-
alization to lead to homogeneity in customer
taste, individual markets "still very much
reflect local consumer attitudes and traits."

THE EDUCATION DEFICIT

Creative brilliance and technological
innovation require a well-educated
workforce. But recent studies indicating that
only 81% of American adults are literate
have prompted fears about an education
deficit in America's future.

Boston University President John Silber
opened the discussion by declaring that
"anyone who thinks we have 81% literacy
in this country is living in a dream world.
The true number is closer to 50%, perhaps
slightly less."

The panel on American education was
chaired by Dr. Helmut Panke, Chairman
and CEO of BMW (US) Holding Corp.
He pointed out that BMW and all American
corporations are "end users of what the
educational system provides," and are there-
fore dependent upon the quality of the
nation's schools.

"BMW's workplace will be operated by
intelligent, well-trained individuals, not by



non-thinking, non-caring robots. A robot will never understand what it is doing, evaluate the process, and come up with suggestions for continuous improvement. We must have intelligent, well-trained, and intellectually flexible associates empowered to contribute to the process."

Panke said his company's choice of South Carolina for its U.S. plant site was based in great part on the state's well-developed system of technical training and education.

What is keeping America's public schools from producing more employable graduates? **Joseph F. Alibrandi**, chairman and chief executive of Whittaker Corporation and a leader in the movement for choice in education, asserts that the problem can be found in the organizational structure of the schools themselves: "If I had to design an organization that was doomed to failure, I'd have it be a monopoly reporting to a diffuse political body, I'd introduce a very powerful union, I would have certification of employees so that you can't have a free market for employees, I would have tenure so that you can't fire anybody, I would not have evaluations or merit increases, I would have no rewards for success, no penalties for failure, and then what I'd do is I'd completely detach the customer from the process. Does that sound familiar to anybody?"

Joseph A. Fernandez, president of the Council of Great City Schools and former New York City Public Schools chancellor, explains that school systems have in effect become big businesses, with large numbers of employees and huge budgets. "In New York City, for example," he says, "we were equivalent to the twelfth-largest corporation in the country in terms of our operating budget."

In order to bring better management practices to the public schools, Fernandez is currently working with major corporations and business schools "to provide school board members, superintendents, senior level executives, and other people in specific



"BMW'S WORKPLACE WILL BE OPERATED BY INTELLIGENT, WELL-TRAINED INDIVIDUALS, NOT BY NON-THINKING, NON-CARING ROBOTS. WE MUST HAVE INTELLECTUALLY FLEXIBLE ASSOCIATES EMPOWERED TO CONTRIBUTE TO THE PROCESS."

*Dr. Helmut Panke,
Chairman and CEO
BMW (US) Holding Corp.*



"THE PEOPLE DOWN HERE ARE NOT THE ONES WHO SHOULD REALLY BE DECIDING ON OUR ECONOMY."

*Congressman Amo Houghton,
Republican of New York*

functional areas with management tools, training, development, and networking opportunities comparable to those available in the private sector."

A CHALLENGE TO CORPORATE AMERICA

The dominant theme resonating throughout the speeches of the national political figures who addressed the symposium was that the reinvention of America requires the talent, experience, resources, and energy of American business. Speaker after speaker – **Treasury Secretary Lloyd Bentsen**, **Labor Secretary Robert Reich**, **Housing and Urban Development Secretary Henry Cisneros**, and **House Minority Whip Newt Gingrich** – reiterated that corporate leadership is essential to America's continued prosperity and global ascendancy.

But the most direct challenge of the symposium was made toward the end of the meeting by the former CEO of Corning Glass Works, **Representative Amo Houghton**, Republican of New York, the only *Business Week* 1000 CEO ever to serve in the House of Representatives. He asserted that most of his colleagues in Congress are poorly equipped to cope with economic issues because they have never been responsible for actual companies. While businessmen have direct experience with budgets, he said, "the people on the budget committee *don't*, because they have never gone through it."

"Therefore," concluded Houghton, "the people down here are *not* the ones who should really be deciding on our economy. So who else around here," he asked, surveying the chief executive officers filling the hall, "is willing to come down here and reinvent America?"

by Andrew K. Sandoval-Strausz

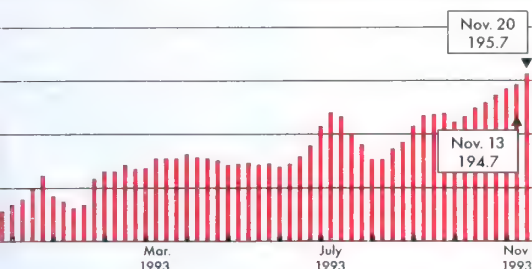
In-hall polling provided to *Business Week* by Quick-Tally Interactive Systems of Beverly Hills, California.

BusinessWeek Index

PRODUCTION

Change from last week: 0.5%
Change from last year: 7.0%

1967=100 (four-week moving average)

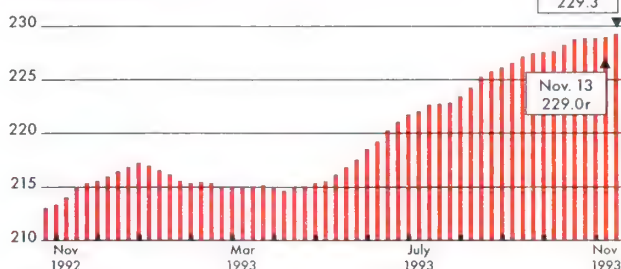


The production index continued to advance during the week ended Nov. 20. On a seasonally adjusted basis, output of trucks and autos were up strongly, and lumber output and rail-freight traffic increased as well. Steel, electric power, board output declined, while crude-oil refining and paper production were up. Before calculation of the four-week moving average, the index rose to 195.6.

BW production index copyright 1993 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: 6.7%



The leading index increased slightly during the week ended Nov. 20. Stronger stock prices and improved growth rates for materials prices and M2 lifted the index higher. However, business failures were up, growth in real estate loans slowed, and the bearish tone in the bond market continued to send negative signals about the economy's future. Before calculation of the moving average, the index dropped to 230.1, from 231.1.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
(7) thous. of net tons	1,816	1,789#	3.5
(27) units	81,850	136,766r#	3.1
(27) units	68,070	115,485r#	17.8
POWER (11/27) millions of kilowatt-hours	55,093	55,290#	2.0
REFINING (11/27) thous. of bbl./day	13,580	13,698#	0.0
(7) thous. of net tons	19,492#	19,294	24.1
D (11/20) thous. of tons	853.3#	845.8r	3.6
(20) thous. of tons	815.0#	815.0r	2.3
(20) millions of ft.	494.2#	499.5	50.3
IT (11/20) billions of ton-miles	23.1#	23.1	4.1

Source: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, Aluminum Institute, Energy Dept., American Paper Institute, WWP, SFPA, Association of Railroads

CURRENCY EXCHANGE

	Latest week	Week ago	Year ago
IN (12/1)	108	108	125
ARK (12/1)	1.72	1.70	1.58
IND (12/1)	1.48	1.49	1.58
NC (12/1)	5.94	5.91	5.37
OLLAR (12/1)	1.34	1.33	1.27
C (12/1)	1.50	1.49	1.41
IO (12/1)	3.104	3.100	3.108

Source: New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

	Latest week	Week ago	% Change year ago
2. /troy oz.	373.100	377.600	11.2
11/30) #1 heavy, \$/ton	137.50	137.50	54.5
11/30) index, 1967=100	221.3	222.3	9.7
7) c/lb.	79.5	79.2	-20.9
1/27) c/lb.	51.3	50.5	-5.0
#2 hard, \$/bu.	3.88	3.95	1.0
7) strict low middling 1-1/16 in., c/lb.	59.10	56.05	16.5

Source: Wednesday final setting, Chicago market, Commodity Research Bureau, Metals market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (11/26) S&P 500	461.73	464.30	8.0
CORPORATE BOND YIELD, Aaa (11/26)	6.98%	6.94%	-13.4
INDUSTRIAL MATERIALS PRICES (11/26)	94.2	94.1	-0.2
BUSINESS FAILURES (11/15)	355	278	-10.4
REAL ESTATE LOANS (11/13) billions	\$405.9	\$407.6r	0.2
MONEY SUPPLY, M2 (11/11) billions	\$3,513.9	\$3,506.3r	1.1
INITIAL CLAIMS, UNEMPLOYMENT (11/9) thous.	338	358	-3.7

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
ORDERS FOR DURABLE GOODS: MFG. (Oct.) billions	\$135.8	\$133.1r	8.1
PURCHASING MANAGERS' INDEX (Nov.)	55.7%	53.8%	1.8
AGRICULTURAL PRICES (Nov.) index, 1977=100	143	145	5.1
CONSUMER CONFIDENCE INDEX (Nov.)	71.2	60.5	8.5

Sources: Commerce Dept., National Assn. of Purchasing Management, Agriculture Dept.

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/15)	\$1,123.5	\$1,118.8r	9.8
BANKS' BUSINESS LOANS (11/17)	272.7	272.2r	-2.6
FREE RESERVES (11/24)	954	907r	-22.0
NONFINANCIAL COMMERCIAL PAPER (11/17)	159.5	158.8	6.3

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (11/30)	3.16%	3.05%	3.37%
PRIME (12/1)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (11/30)	3.44	3.42	3.79
CERTIFICATES OF DEPOSIT 3-MONTH (12/1)	3.35	3.36	3.73
EURODOLLAR 3-MONTH (11/26)	3.38	3.34	3.80

Sources: Federal Reserve Board, First Boston

Production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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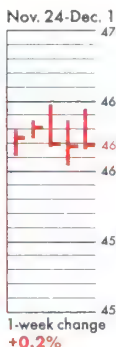
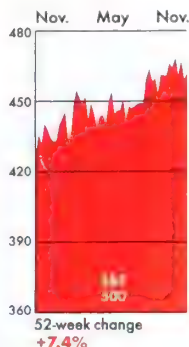
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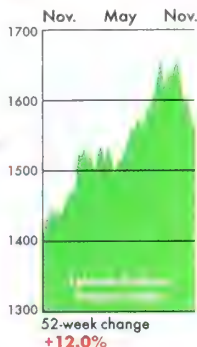
MARKET

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Small and midsize
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The Nikkei index
oints or 7.5% by Nov.
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36 points on Dec. 1 to
3, an all-time high.

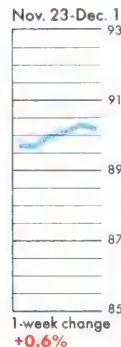
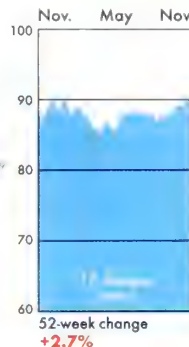
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

	Latest	% change	
		Week	52-week
INDUSTRIALS	3697.1	0.6	12.5
COMPANIES (S&P MidCap Index)	173.8	1.7	11.6
COMPANIES (Russell 2000)	252.6	1.8	17.9
COMPANIES (Russell 3000)	266.2	0.7	8.5

	Latest	% change (local currency)	
		Week	52-week
FINANCIAL TIMES 100	3233.2	5.3	17.0
NIKKEI INDEX	17,125.3	-1.5	-1.5
DAX COMPOSITE	4220.4	0.1	29.3

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.18%	3.19%	3.39%
30-YEAR TREASURY BOND YIELD	6.26%	6.31%	7.57%
S&P 500 DIVIDEND YIELD	2.73%	2.74%	2.88%
S&P 500 PRICE/EARNINGS RATIO	22.5	22.5	23.8

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	455.9	455.5	Positive
Stocks above 26-week moving average	47.0%	45.3%	Neutral
Speculative sentiment: Put/call ratio	0.38	0.43	Neutral
Insider sentiment: Vickers sell/buy ratio	1.93	2.02	Neutral

INDUSTRY GROUPS

% change			BRIDGE INFORMATION SYSTEMS INC		
LEADERS	4-week	52-week	Strongest stock in group	4-week	52-week
CONTAINERS	17.9	-11.0	STONE CONTAINER	50.0	-43.5
MANUFACTURING	10.6	-29.2	LIZ CLAIBORNE	24.3	-45.7
SYSTEMS	7.5	-12.6	AMDAHL	18.9	-30.2
CONTROL	6.7	-28.4	BROWNING-FERRIS INDUSTRIES	10.5	1.0
HOUSING	6.2	10.3	FLEETWOOD ENTERPRISES	7.2	12.2
LAGGARDS	4-week	52-week	Weakest stock in group	4-week	52-week
LOANS	-9.1	16.5	HOUSEHOLD INTERNATIONAL	-11.1	15.8
ATION AND PRODUCTION	-9.0	1.9	ORYX ENERGY	-21.2	-11.8
EQUIPMENT AND SERVICES	-8.7	-0.5	BAKER HUGHES	-12.6	3.2
MOTELS	-7.9	62.8	PROMUS	-9.6	167.7
TELECOMMUNICATIONS	-7.2	18.9	MCI COMMUNICATIONS	-15.2	32.7

MUTUAL FUNDS

return		% change	
		4-week	52-week
WILEY INSTL. EMERGING MARKETS	9.4		
IN AMERICA	8.8		
INCH LATIN AMERICA B	7.1		
return		% change	
		4-week	52-week
STRATEGIC INVESTMENTS	212.3		
VICES GOLD	105.4		
PRECIOUS METALS	98.7		

LAGGARDS

Four-week total return		% change	
		4-week	52-week
DFA JAPANESE SMALL COMPANY	-16.8		
CAPSTONE NIKKO JAPAN	-13.9		
EQUITY STRATEGIES	-13.3		
52-week total return		% change	
		4-week	52-week
PILGRIM CORPORATE UTILITIES	-17.3		
INVESCO STRATEGIC ENVIRONMENTAL SERVICES	-15.3		
INVESCO STRATEGIC HEALTH SCIENCES	-12.0		



PORTFOLIOS

	Foreign stocks	Treasury bonds	Gold	U.S. stocks	Money market fund
Present					
100					
Year ago					
io					
icate					
turns					
	\$12,795	\$12,232	\$11,075	\$10,944	\$10,216
	-4.39%	+0.96%	-1.77%	+0.58%	+0.04%

These figures are as of market close Wednesday, Dec. 1, 1993, unless otherwise indicated. The S&P 500 companies only; performance and share prices are as of market close.

Nov. 30. Mutual fund returns are as of Nov. 26. Relative portfolios are valued as of Nov. 30. A more detailed explanation of this page is available on request.

TAKING BACK AMERICA'S STREETS

To a nation numbed by ever-worsening statistics on crime, additional numbers can hardly be expected to produce much surprise. But a fresh analysis by BUSINESS WEEK offers two shocking new figures. First, the economic cost of crime is \$425 billion a year. This reinforces our despair. Second, the entire country spends only \$35 billion on police protection annually—less than the outlay for soda pop. This suggests the possibility of a solution.

Despite the rhetoric of the past, the battle against crime—both the stick of punishment and the carrot of social programs—is startlingly underfunded. Worse, much of the money is misspent. But a rejiggering of the priorities and an increase in funds for prevention, instead of prison, could make the streets safer and could save individuals, businesses, and the government a fortune (page 72).

This is good news for a nation haunted by the crime epidemic. Last year, 14 million crimes were reported to the police. The Justice Dept. estimates that Americans report only one-third of all incidents. So about 40 million crimes were probably committed—in a country of 250 million people. That is a staggering total, and it highlights a disturbing possibility: America would rather live with crime than fight it.

With his usual flair for provocative comment, Senator Daniel Patrick Moynihan (D-N.Y.) said just that in a recent essay in *The American Scholar*. He argued that people were becoming more likely to describe deviant behavior, indeed criminal behavior, as normal. The result is that a level of violence unacceptable to Europeans, Asians—and our parents—is now the norm in Los Angeles, Miami, and Washington.

What is to be done? First, make crime pay less. Certainty of punishment is critical. The most efficient way is to put more police on the streets. "Community policing" is the hot

new term for walking a beat. This back-to-basics tactic is more effective—and far cheaper than incarceration, which is a bundle.

The problem is, the country doesn't have enough police walking the beat. Despite the billions spent on prisons in the 1980s, the number of police per 10,000 people barely kept pace with the population, even as violent crime soared. Then, only half of all officers are in the field at any one time. Simply hiring more clerks to replace deskbound cops would be an effective way to get police on the street quickly.

Revamping the juvenile-justice system is a second priority. Raising the likelihood of punishment. Young offenders rarely get no sentence—or a very light one—for their first or four felonies. The lesson: Crime pays.

Punishment is not enough. Clear incentives are needed to get young people to enter the world of work and not the welfare economy. That means job training and education. It costs \$27,000 a year, vs. \$22,000 for a slot in the Job Corps.

Intensive training and education programs have proven to be able to sharply reduce the crime rate. About 650,000 juveniles were arrested for violent crime in 1992. It would cost \$1 billion to enroll them all in the Job Corps—probably a fraction of the cost of their crimes.

After years of impotent rage, America appears poised to fight the scourge of crime. Passage of a five-year, \$2-billion anticrime bill by the Senate and the handgun bill named after James Brady are good first steps. Liberals, who have viewed anticrime measures as veiled racism, are now joining the battle.

President Clinton's Nov. 13 speech in Memphis emphasized personal responsibility and family stability. It is up to the country to provide the incentives to build

THE JAPAN THAT MUST SAY YES TO REFORM

The world that Japan dominated economically in the Eighties has become a very different place in the Nineties. Rivalry from the U.S. at the high end and from Asia at the low end is squeezing Japanese corporations as never before. A new integrated global economy is taking shape. Every country, including Japan, is open to new forces of fast-moving goods, people, and capital.

Japan's elites have only just begun to respond to these worldwide changes. Grudgingly, the political system is being reformed to reduce corruption. Japanese corporations are cutting costs, shipping production overseas, and focusing on profits, not just expansion and market share.

But much more must be done. Massive deregulation is necessary for Japan to become competitive again. Such a move would bring the financial benefits of the strong yen—cheap imports—down to the consumer.

Deregulation is needed even more in huge areas of the economy: telecommunications, airlines, land, food, construc-

tion, and the Byzantine distribution network. Excesses have choked off proliferation of everything from mobile phones and computer networks to satellite broadcasting.

But to deregulate industry, Japan must first end the symbiosis between bureaucrat and businessman. Bureaucrats protect the industries they supervise in exchange for favors later on. Prime Minister Morihiro Hosokawa's effort to reform the legislature is a good first step. He should also reform the bureaucracy as well.

Unless that occurs, Japan will find it very difficult to make the next high-tech leap: the integration of telecommunications, computers, and entertainment. While Japanese prowess in the Eighties in automation, quality-control, and miniaturization drove the world economy, America is widening its lead in the information technologies that will dominate the future.

To win economically again, Japan must liberalize and democratize its society and its economy. The old way of doing work anymore.

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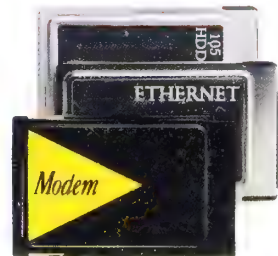
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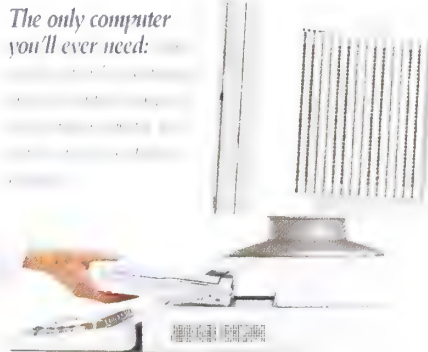


Blazing 50 MHz: Run with the

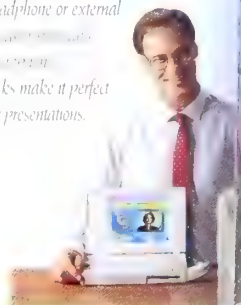


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A NATIONAL HEALTH CARE INFORMATION SHOULD

Faster access to data. Streamlined communications. Faster turnaround time. If this is what's down the road for the health care industry, some major industry leaders, like the Baptist Memorial Health Care System and Yale Haven Hospital believe they've found a way to get there now – using Notes, the innovative *groupware* from Lotus.

Here's how Baptist Memorial is using Notes to get a jump on the future:

NOTES FROM THE FIELD.

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LARRY BLACK, PH.D., MD, "BEFORE NOTES, WITH THE CASELOAD I KEPT, WAS SIMPLY NO WAY TO KEEP UP WITH THE WRITTEN DOCUMENTATION. I COULDN'T TRACK – AND WE'D DOUBT THE BILL – ALL THE PROCEDURES PERFORMED. BECAUSE I'LL BE ABLE TO STORE VERBAL MEMORANDUMS, HAS SIMPLIFIED DOCUMENTATION TO A POINT WHERE I CAN ACTUALLY SEE ALL PATIENTS IN A DAY – AND GET PAID FOR THEM."

When you've got a 1,366 bed medical center and a 600 bed hospital in Memphis plus 15 related hospitals spread throughout the region, you've got a lot of responsibility.

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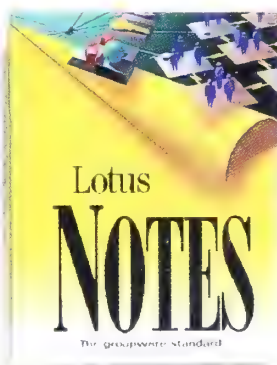
Washington for the future of health care in this

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early. A check that arrives
too late. There are all sorts
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And none of them are small if they happen to you. At CIGNA, caring about the things that affect our customers is our business. To us that means not merely using skill and compassion when helping people deal with disasters, emergencies and everyday problems. But working to prevent them in the first place. In healthcare, we have programs that identify high-risk pregnancies early, increasing the chances for a healthy, full-term baby. We provide loss control programs that identify hazards on the job and help reduce serious accidents. We help people avoid the nightmare of outliving their assets. With retirement plans that make it easy for people to save. And easy for companies to help them. And we have hundreds of people whose only job is to prevent nightmares like the one you see above. We're not saying we're perfect. But, if you ever have a nightmare, we hope the people you call are people who are not just committed to caring. But to getting a little bit better at it each and every day.



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Life & Employee Benefit



NEW INDUSTRIAL ORDER: BUREAUCRACY WILL BE OUT, AND TEAMWORK WILL BE IN, AT THE 21ST CENTURY CORPORATION

Cover Story

76 HORIZONTAL CORPORATION

Chances are, you work in a typically vertical company, one where staffers look up to bosses instead of out to customers. Get set for a change. In a quest for greater productivity, many companies—among them such giants as DuPont, GE, and AT&T—are redrawing their old hierarchical organization charts. Here comes the horizontal corporation

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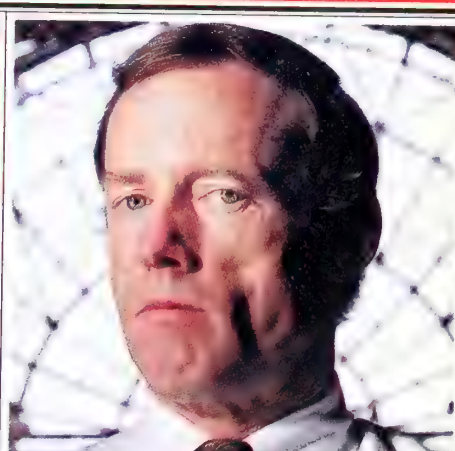
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g money and a clamor by fans
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der workers have more chances
an just a few years ago

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7ths about older workers are
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EDITED BY LARRY LIGHT AND JULIE TILSNER



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LISTS AND RATINGS

THE TOP ANALYSTS: WHO'S COUNTING HERE?

Wall Street's annual beauty pageant now has competition and the venom is flowing. There has long been discreet jockeying to land on *Institutional Investor* magazine's annual All-Star Research Team list, which is based on a poll of money managers and affects bonuses and job offers. But this fall, the ritual got a shake-up with the appearance of *The Wall Street Journal's* analyst rating, a number-crunching exercise that focuses only on the accuracy of stock-picking and earnings estimates. The rival rosters agree on only three top-ranked analysts.

Both publications, in addition to sniping at each other's methodology, have suffered barrages of phone calls, faxes, and mail from overlooked analysts, who are doubly upset that they've missed both lists. *II's* Laurie Meisler received irate calls demanding a recount. John Dorfman, the *Journal's* staffer in charge of the new list, says three miffed Wall Street houses threatened to cut off Zacks Investment Research (which crunched the *Journal's* numbers) from access to data. Says perennial *II* winner Joseph Ellis, of Goldman Sachs, passed over by the *Journal*: The newspaper's register misses such things as an

analyst's knowledge of an industry. But those long-snubbed by *II* say its list is a popularity contest, so making the *WSJ's* roster is sweet vindication. □

WHEELER-DEALERS

NORTHWEST TO INVESTORS: FLY ME

Northwest Airlines is set to go public to the tune of \$1 billion. Sometime around the New Year, sources close to the St. Paul (Minn.)-based airline say, Northwest will offer \$500 million in common stock, with perhaps an additional \$500 million via a pre-

TALK SHOW

Customers are not the enemy. They are only a necessary evil.

—Harvey Pitt, securities lawyer, joking before the Securities Indus. Assn. on the need for early resolution of broker-customer disputes

THE DEAL MILL

RENDER UNTO RAINWATER...

Another lesson from the over-leveraged 1980s: How to milk a dead cow. Darling-Delaware, a sweet name for an unlovely business (it boils down animal carcasses into tallow and chicken feed), is struggling under a ton of debt after a 1986 takeover by Fort Worth financier Richard Rainwater and other high rollers. To settle a creditors' lawsuit, the money-losing company is being handed over to its long-suffering bondholders to own—and the takeover crowd comes out way ahead.

The artistes put up \$12 million in cash for the Irving

(Tex.) rendering company, then took a \$180 million dividend in 1989, and next capitalized its debt by selling \$175 million in bonds. Darling-Delaware then, in May 1990, could only make an interest payment. Bondholders, claiming they were overpaid for their financial foreboding (which the takeover investors denied), agreed on Nov. 2



to accept equity ownership at \$9 million per share. Rainwater, who held a 6% stake and managed the role, blamed poor fortune for the sudden decision to sell in tallow and feed prices. Says he put up \$720,000 to buy in and \$450,000 to settle the suit, snagging \$10 million from the dividend. Says Rainwater: "There are no villains here."



THE FLYBOYS: Wilson and Checchi

ferred offering around Feb. 15. The nation's No. 4 carrier also hopes to net \$370 million through financing its receiv-

ables. Northwest won't comment.

Co-chairmen Al Checchi and Gary Wilson will use the cash to start repaying Northwest's one-way debt of \$1.5 billion, most of it incurred in their leveraged buyout. They also spend to satisfy Federal Aviation Administration noise regulations on sound-baffle Northwest's fleet, at a cost of about \$1 million per jet. Kevin

REALITY CHECK

PRESIDENT CLINTON SAYS his Administration deserves credit for the recent good economic news—faster growth, falling unemployment, surging productivity and investment, low interest rates, and negligible inflation. "We

IN REALITY, a change in federal policy had very little to do with the favorable economic climate now unfolding. Clinton's deficit-reduction package helped drive down long-term interest rates that already were headed lower. But the seeds of today's expansion were being sown

are reversing economic policies that were in place for 12 years," Clinton said on Dec. 3. After the jobless rate for November fell to 6.0%, the steepest monthly drop in 10 years. "We have a long way to go, but we are moving in the right direction,"

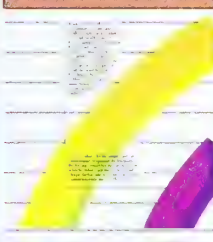
while Clinton was still governor of Arkansas: Companies made themselves more productive, slack demand kept inflation low, and businesses shed debts. All that set the stage for expansion. The only question was when it would begin.

Owen Ullman

HP DeskJet color printers start at under \$485.

Come on down.

People's Attitudes Towards Colors



For those of you who have been waiting for color printing to come down to your price range, your time has come. HP DeskJet color printers are starting at under \$485*. So now you don't have any excuses left for not buying one.

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Up Front

MAD AVE.

FUNNY, SURE— BUT DOES IT SELL?

Funny TV ads make you laugh, all right. Think of Joe Isuzu, the Energizer Bunny, Wendy's Clara ("Where's the beef?") Peller. But do they make you buy any more than serious ones? Nope. A new

president of Research Systems, an ad research firm in Evansville, Ind. "People might enjoy watching humorous ads, but it has done its stuff once you've comprehended the message."

Rib-tickling advertisers shrug off the findings, saying ads are only part of the promotional mix—there are also discounts, packaging, etc. And anyway, they all think their particular ads benefit from humor. Take Miller Lite, the nation's No. 2 brew behind Budweiser. Its latest campaign features some fictive odd couplings of wacky sports, such as the sumo wrestler high-dive competition. When the massive diver hits the water, he drenches the judges and craters the pool floor. Other Miller Lite ads: full-contact golf (linemen sack the duffer) and luge bowling (luge sledders are pursued by bowling balls). Says Miller spokesman Eric Straus: "Beer drinkers identify Miller Lite with fun."

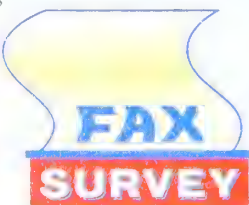


SILLY TIME: Humor doesn't linger in the mind

study debunks the huckster myth that funny commercials last longer in the minds of consumers than other spots. "We've found that all ads wear out the same," says Mark Gleason, executive vice-

So what do you think, anyway? It's time for Up Front's first annual readers' fax survey. We want to know your opinion on matters great and small. Other surveys ask you to answer macro questions, such as where you think interest rates are headed—and that's great. But our curiosity is more tightly focused.

Fax us your circled answers—and one short written one—at 212 512-6322 by Friday, Dec. 17. Please enclose your name, address, and phone number. Or if you want to do it the old-fashioned way (we won't tell on you), cut this out and mail to us at: Up Front Fax Survey, c/o Julie Tilsner, BUSINESS WEEK, 1221 Avenue of the Americas, 39th floor, New York, N.Y. 10020.



1. Which of these businessmen would you most like to work for:

- ☐ Bill Gates of Microsoft
- ☐ Lou Gerstner of IBM
- ☐ Jack Smith of General Motors
- ☐ Sandy Weill of Primerica
- ☐ Jack Welch of General Electric

2. Are you comfortable using a computer:

Yes ☐ No ☐

3. Will most laid-off, middle-aged managers ever work again at comparable or better jobs:

Yes ☐ No ☐

4. If you could fix one thing about air travel, it would be:

- ☐ The food
- ☐ Knee space
- ☐ Baggage hassles

5. Fill in the blank: If you could pass one law, what would it be?

DRAWN AND QUARTERED



SCROOGED

GEE, BOSS, THANKS FOR THE DOUGHNUTS

What do you want for Christmas? Cold, hard cash? While money-grubbing may not be in keeping with the holiday spirit, extra dough is what employees want most from their bosses this time of year. An American Express study finds that 58% of 700 employed adults surveyed nationwide want cash or at least a gift certificate as a Yuletide re-

ward. And 22% prefer vacation time for a job done.

Some gifts were as close as a lump of AmEx asked folks to name the worst gifts they ever received. Among the losers: time without pay, a pack of cigarettes, a lunch box and pen-and-pencil sets, coffee mugs. And yes, fruitcake. And year-end cash is definitely the most, it should be a decent sum. One devil reported he received a muni-

\$2.50 bonus.

THE BIG PICTURE

ON THE FIRST DAY OF CHRISTMAS,

Here's what it would cost this year for:	
One partridge in a pear tree...	\$35
Two turtle doves...	\$50
Three French hens...	\$15
Four calling birds...	\$280
Five gold rings...	\$325
Six geese a-laying...	\$150
Seven swans a-swimming...	\$7,000
Eight maids a-milking (nonunion*)...	\$34
Nine ladies dancing (union*)...	\$2,607
Ten lords a-leaping (union*)...	\$3,013
Eleven pipers piping (union*)...	\$1,081
Twelve drummers drumming (union*)...	\$1,177
Total:	\$15,761

YOUR TO
LOVE GY
TO THE

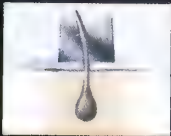


CONTINUED

Information Superhighway revenue to date: \$0. Number of articles since 1992 on potential Superhighway profits: 38,4



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HOW MUCH OF ASIA'S WEALTH COMES OUT OF AMERICA'S HIDE?

Your article on "Asia's Wealth" (Special Report, Nov. 29) does a superb job of reflecting the vast growth of wealth in Asia but avoids discussing the U.S. contribution to that wealth.

I recently visited Hong Kong, Indonesia, Malaysia, Singapore, and Thailand, and I was flabbergasted at the pace and intensity of office construction in every city I visited.

Is all this construction and visible wealth at our expense? American companies are in Malaysia manufacturing microchips utilizing labor at subsweatshop wages. This new wealth is substantially based on the sweat and toil of underage, underprotected workers. Hundreds of thousands of jobs formerly in stateside factories are now in Golden Asia.

We in America, having lost our chip business to Asia, as well as shoes, electronics, textiles, and a big chunk of our auto industry, should wonder whether our open borders allow all this Asian wealth to be created at our expense.

Elliott H. Press
Rochester, N.Y.

UNITED'S UNION WORKERS COULD USE MORE UNITY

In regard to "Rumble on the runway" (Top of the News, Nov. 29), it has been said that the union member does not use his head until his stomach is empty, and the union employees at United Airlines Inc. are no exception. For the past six years, my union, the machinists, has used most of its energy trying to get rid of [Chief Executive] Stephen Wolf.

During the same period, Wolf and his team have performed one miracle after another to build a magnificent airline reaching most corners of the globe. Along the way, they created thousands of good-paying union jobs, in and out of United Airlines. One-third of the mechanics at United were hired since Wolf took the reins, and I am sure it is the same with all the other classifications.

Earlier this year, Wolf asked for concessions to protect many of these same

jobs he had created. There was a sounding "no" from unions and we 5,200 members. We were not willing to share some of the pain to protect 5 jobs. Unfortunately, the union member does not use his head until his stomach is empty.

John "Scotty" Thomas
San Francisco

BECKER'S ANTICRIME STANCE HASN'T A LEG TO STAND ON

I realize that it is probably an anomaly for you to receive a "letter to the editor" from a convict, especially from one who audaciously criticizes a distinguished professor and Nobel laureate. Just consider this, then, one of those "you'll never guess what happened today, ho stories."

Gary Becker's views in "How to solve the crime? Take a tough, head-on stance" (Economic Viewpoint, Nov. 29) is a hash of the same rhetoric and specious reasoning the country has endured for the past two decades. More police, more prisons, and more prisoners were supposed to be the promised path to safer streets and a safer society. Instead, the streets are about as safe as they ever were but are now filled with pot holes and ill-educated children.

True, crime rates climbed in the 1960s and through the 1970s and dipped in the 1980s only to creep upward again. Concomitantly, our prison population doubled. What is not mentioned in the column (and is more telling) are the three short waves of baby boomers and "miniboomers" who swept through society during those years, corresponding to the rise in crime during the peak antisocial years, 14 to 24.

Second, the claim that politicians have been hesitant to call for "greater punishment" and are more likely to opt for rehabilitation is simply silly. Over the quarters of the states have adopted more stringent criminal codes and procedures, and state correctional spending is the fastest-growing budget item. Tailing investments in education, health care, and infrastructure.

No, what Becker is calling for has already been tried. All it produced were deteriorated roads and failing schools.

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Each and every second, a rain forest area the size of a football field goes up in smoke. You'd better call now.



The National
Arbor Day Foundation

Call Rain Forest Rescue NOW.
1-800-255-5500

Readers Report

CORRECTIONS & CLARIFICATIONS

"The 'glass ceiling': A barrier to the boardroom, too" (Top of the News, Nov. 22) said a survey by Catalyst listed Walt Disney, Black & Decker, and Federated Department Stores as not having women on their boards. Since that survey was completed last spring, all three have named women as directors: Barbara Bowles at Black & Decker, Marna C. Whittington at Federated, and Reveta Bowers at Walt Disney. Bowers replaced Sharon Disney Lund, who died on Feb. 16.

while delivering a new colossus to devour the public purse: the criminal justice-industrial complex to frighten us hordes of criminals. With America the world's leading per-capita incarcerator by a 2-to-1 margin over our nearest competitor, South Africa, we need strategies other than the failure of "lock 'em up and throw away the key."

Jon Marc Taylor
Fulton, Mo.

Editor's note: The writer, who is serving a 15-year sentence for rape, sodomy, and robbery, is the student winner of a 1993 Robert F. Kennedy Journalism Award.

TAKE THOSE FREE-TRADE IDEAS —AND USE THEM AT HOME

Now that the Clinton Administration has won a victory for NAFTA and competition in international markets, it's time to do the same for domestic markets ("Sweet victory," Top of the News, Nov. 29). It won't be easy to give up the price controls and other antimarket elements in the proposed health-care-reform package, but let's hope these new converts to free-market economics have the strength to admit their mistake.

Tony Lima
Hayward, Calif.

WHAT THE NEW JOBLESS RATE DOESN'T SAY ABOUT WAGES

The claim that the unemployment rate is now half a percentage point above some theoretical rate at which wage pressures might accelerate is a misinterpretation of the results of the new Current Population Survey ("Not only a merry Christmas, but a happy new year," Business Outlook, Nov. 29).

The redesigned survey is a completely new instrument, but the underlying concept of what it means to be unemployed has not changed. Our test of the new questionnaire and data-collection technology showed that in the 12 months

ended in August, the survey yielded a jobless rate 0.49 percentage point higher than that based on the old version.

Contrary to your article's suggestion, however, this does not mean that we are any further from the unemployment rate at which wage pressures might accelerate than we were before. Any empirical relationship between the rate of wage growth and the level of unemployment that may have existed in the past cannot be expected to carry over to a new unemployment measure.

Thomas J. Plante
Associate Commissioner
Employment & Unemployment
Statistics
Labor Department
Washington, D.C.

DO TAX PREPARERS IGNORE THE ELECTION-FUND CHECKOFF?

I was interested to note the failure of checkoffs to the Presidential Election Campaign Fund highlighted in your article "Filling the war chest for campaign '96" (Up Front, Nov. 29). While I have no knowledge that "general disgust" might be part of the cause, I believe another factor may be involved.

For the last few years, I have used several tax preparers, including H&R Block, and they have never once asked whether I would like to contribute to the election fund or the various political funds. Rather, they have completed the 1040 and run off the necessary copies without providing for contributions or asking me to handwrite my yes or no on the forms and copies. I believe that this high level of noncontributors is, in part, attributable to tax preparers.

James R. Brinkman
Stillwater, Minn.

Editor's note: H&R Block says it trains preparers to ask clients whether they want to earmark money for the fund.

AN ILLUMINATING LOOK AT BLACK BUSINESSPEOPLE

Your article "Inside the black business network" (People, Nov. 29) was a pleasant surprise. It's nice to see African Americans presented in the world of business as major players on the pages of a business publication not owned or operated by African Americans. I was worthy of a cover story.

Ed Gordin
New Rochelle, N.Y.

Letters to the Editor should be sent to Reader Service, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax (212) 512-4721. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

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VIRTUAL COMMUNITY: HOMESTEADING ON THE ELECTRONIC FRONTIER

Howard Rheingold
Simon & Schuster • 325pp • \$22.50

THE INFO SUPERHIGHWAY LEADED THE WRONG WAY?

Where, oh where will the Information Superhighway take us? The media and telecommunications giants racing to build an infotainment pipeline evoke a world of dissatisfied consumers reveling in videos on demand, interactive shopping, and personalized advertising. In *The Virtual Community: Homesteading on the Electronic Frontier*, Howard Rheingold offers a starkly different vision. People aren't really longing for a great stream of interactive entertainment and information, he says. What they want is a way to form relationships with their virtual neighbors in the global village. The Net leads to a new metaphor for how we use communications technology to work. Instead of a superhighway leading through your town with an on-line leading from your living room, enter a web of spirited conversations you can join by tapping on your computer keyboard and powering up a modem. Rheingold's "virtual community" is a group of people who in all good haven't met face to face but enjoy spending time together in cyberspace debating politics, doing business, spilling their guts, or just flirting and playing games.

Rheingold takes us on a brisk tour of the Net—an amalgam of electronic bulletin boards, on-line information services, and computer conference sessions conducted via global telecommunications networks that link our phones. Communication is now confined mainly to text, but the Net is gaining the ability to handle voice, video, and other media. At heart is the Internet, the U.S. government-subsidized system that links 15 million people in 100 countries. Rheingold, a self-described '60s-style counterculture activist who edits the San Francisco-based *Whole Earth Review*, begins the tour from inside the virtual community to which he belongs. He is as the WELL—for Whole Earth Online Link—the network began in 1984 as an experiment to let ordinary people determine how to use new tools for group communication. Given the success, it's no surprise that the WELL's fastest growth has come as a forum for discussing the Grateful Dead. Occasionally, the Deadheads and similar interest groups get together at pic-



People don't want more infotainment. They want to spend time getting to know each other in cyberspace

nics or concerts. But the rest of the time, the Net is the ultimate social leveler: On line, no one can tell if you're black or white, old or young, male or female, sick or well.

Members can choose to enter conversations about everything from antiques to gun control. Rheingold enjoys discussing the joys and problems of child-rearing. When a tick latched onto his daughter's scalp, he typed a question into his PC and learned on line—from one "Flash Gordon, M.D."—how to remove it. The tick was gone long before the child's doctor returned a call.

Rheingold rhapsodizes about the Net as the start of many-to-many communications—as distinct from one-to-one (telephone) and few-to-many (television). On line, he writes, one can tap into a giant "groupmind." And greater possibilities

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Books

lie just over the horizon. In two years, one expert tells him, there will be more Net users than there are people living in California, and within five years, the online population will exceed that of any country except India or China. Transcending time zones and national borders, the Net could enhance understanding among cultures. Or it could trigger social upheaval, especially in places where contact with other cultures has been restricted.

The U.S. stands to benefit most from virtual communities, says Rheingold. While a convivial atmosphere pervades Italian piazzas and Parisian bistros, suburbanization and the auto culture have left Americans hungry for new ways to connect. Some blame the breakdown of intelligent public discourse on the selling off of "the public sphere" particularly the airwaves, to media moguls and advertisers. With the Tele Warners and Bell Atlantics of the world paving the Information Superhighway, that pattern seems to be repeating in the digital age. But the Internet isn't all milk, Rheingold points out, might you run by and for the grassroots.

Perhaps he's overprotective of the Net he has come to love. The commercialized Information Superhighway so troubles Rheingold may well coexist comfortably with virtual communities. Media and telecom giants seem unlikely to squeeze out virtual communities, Rheingold fears. But they are looking for ways to profit from them. Within the past few months, AT&T bought the rights to a "cyberspace theme park" called the Imagination Network, and Rupert Murdoch's News Corp. acquired Delphi Internet Services, which provides more than 100,000 subscribers with a gateway to Internet. It's too soon to tell whether these properties will be more marketplaces than meeting places.

Despite his worries about commercialization, Rheingold is no technophobe. His book's strength lies not only in the readable description of everyday life on the Net but also in his explorations of just why so many people find spending time on line so appealing. At one point he wonders whether cyberspace is precisely the *wrong* place to look for the birth of community, offering not a place for conviviality but a life-denying simulacrum of real passion and true commitment to one another." Later he asks, "If a lonely person chooses to spend many hours a day in an imaginary world, typing witticisms with strangers from other continents, is that good or bad?"

Business leaders, technology pioneers, makers, and concerned citizens should enjoy pondering such questions with Rheingold. Above all, *The Virtual*

munity succeeds as a call to action: ers who are Net novices won't just to get on line and find out what all uss is about. They may also feel enged to band together and take ol of the Net's destiny.

BY EVAN I. SCHWARTZ
Former Staff Editor Schwartz writes technology from Boston.

BRIEFS

UTION ON WALL STREET

rshall E. Blume, Jeremy J. Siegel, and
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ING STOCK

ie business world hardly needs another book that chronicles the decline of the New York Stock Exchange or predicts that venerable institution's imminent demise. Such have been appearing for a couple ades—and the Big Board isn't dead ut *Revolution on Wall Street: The nd Decline of the New York Stock nge* is a welcome addition. Marshall E. Blume, Jeremy J. Siegel, and ttenberg give the subject new ith trenchant analysis, incisive es, and deft writing.

pecially notable is the way they ss 200 years of economic and fil history. It's all here: How the massed its power, abused it, and slip away. The authors also exhe external forces eroding the foundations—the rise of power-institutional investors, the abolition of ommissions, and the spread of inive financial technology. ne and Siegel, finance professors Wharton School of the Univer-Pennsylvania, and Rottenberg, a al writer, compare the Big Board and General Motors. Like those the NYSE dominated its market a ne but didn't innovate and found laying catch-up. Not that some aders didn't try reform. But it ight by hidebound floor members ne authors contend, cared more heir short-term profits than the long-term survival.

authors propose that the ex-convert to a profitmaking cor-n, sell stock, and use the money out its seatholders. Then manag-d run the Big Board as the finan-ices company it is, without con-seatholder politics. It's a worthy hareholders would presumably preserve the company's health, han the jobs of floor traders or sts. But given the pace of change xchange, a generation may pass t gets serious consideration.

BY JEFFREY M. LADERMAN

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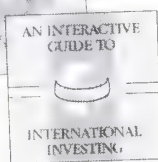
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DAMN THE DEFICIT, FULL SPENDING AHEAD

BY PAUL CRAIG ROBERTS



Clinton killed
the Penny-Kasich
deficit-reduction bill
with fierce lobbying
and overt threats.
So much for
"shared sacrifice"

A few days before Thanksgiving, President Clinton succeeded (by a three-vote margin) in killing the bipartisan deficit-reduction spending cuts he promised last summer in the heat of his battle to raise taxes. The effort to cut a paltry \$90 billion out of projected federal spending of more than \$8 trillion over the next five years, led by Representatives Timothy J. Penny (D-Minn.) and John R. Kasich (R-Ohio), was defeated by fierce White House lobbying.

Representative Penny, who had delivered more than a dozen pivotal Democratic votes for Clinton's tax increase (which passed by two votes), was so exasperated by the White House's duplicity that he told the press: "It's almost enough to make me vomit."

Only four months ago, the Clinton Administration and the Democratic congressional leadership assured the country that nothing was more important than deficit reduction. There would be a "shared sacrifice," beginning with higher taxes on the rich and moving on to spending cuts. Once the tax increase was in the bag and spending was on the block, however, President Clinton decided that deficit reduction was no longer a good thing. In that short span of time, deficit reduction metamorphosed from essential to the economy's health to a threat to its recovery.

With a riot of red ink and an annual budget deficit more than \$100 billion higher than where Reagan left it, the Clintonistas have decided that we need to spend more. The new policy, in their words, is "carve and spend." Laura D'Andrea Tyson, Clinton's chairwoman of the Council of Economic Advisers, has redefined "budget savings" to mean intrabudget transfers to fund new programs. No real "carving" occurs.

DOUBLE STANDARD. Under this approach, the prospect for deficit reduction is nil. The Congressional Budget Office's latest report on the budget outlook says: "The underlying trend of growing deficits has not been reversed." Yet no alarms are being sounded. Lest we forget, Reagan's deficits, which averaged \$167 billion, were blamed for deindustrializing America, bringing on the trade deficit, making us dependent on foreigners to finance extravagant consumption, depleting our savings, crowding out investment, threatening higher interest rates and inflation, and impoverishing our grandchildren.

In contrast, Clinton's deficits—projected by the White House itself to average \$220 billion—are said by Deputy Budget Director Alice M. Rivlin and other top Clinton aides to be necessary to keep the economy from stalling. Moreover, the government is actually contem-

plating adding \$100 billion annually to the deficit with an unfunded national health program while simultaneously complaining that Medicare is too expensive.

What are we to make of this deficit double standard? One inference is that the Democrats and Bush Republicans really meant some of the things they said about the "Reagan deficit." It was just an excuse used by the Washington Establishment to excoriate and discredit a popular President who favored private enterprise over government welfare. But the welfare locomotive is now back on track and government is about to gobble up one-sixth of the economy with "health reform." And Clinton officials told *The Washington Post* that this time "to put the deficit fight behind us."

RAZORBACK PORK. By 1996, Clinton will have added \$1 trillion to the national debt, and accumulated indebtedness as a share of America's gross domestic product will have risen from 51% to 54%. Despite this, the CBO forecasts low long-term interest rates. In other words, deficits don't matter unless they hurt President Reagan's.

As Representative Dave McCurdy (D-Calif.) observed, "the wild charges and the fear-mongering" that were the stock in trade for the attacks on the Reagan deficit were redeployed to sink the Penny-Kasich attempt to cut the 1995 Clinton deficit. Defense Secretary Les Aspin sent the Navy to Capitol Hill to threaten members of Congress with the loss of naval facilities in their districts if they supported Penny-Kasich. Even 18 Republicans joined the defense of big spending, with Appropriations Committee heavyweights Jim Lightfoot (Iowa), Joe Skeen (R-N.M.), and Hal Rogers (R-Ky.) sending letters threatening to pull projects out of the districts of members who voted for the spending-control measure.

Watching the sausage being made, Representative Kasich said the process was "a complete outrage." Republican campaign adviser Ed Rollins could have learned something by walking-around money from watching Clinton and the House leaders buy votes against Penny-Kasich with favors and threats. But Kasich is a fighter. "We're coming back on our promises. We're coming square after the Washington Establishment."

Let's hope he brings bigger spending along with him. When all is said and done, Penny-Kasich attempted to reduce the growth of new federal spending by only \$18 billion a year. Even if the attempt had succeeded, the government would still be spending more money than ever before. And we would still be paying more taxes and piling higher debts on our grandchildren.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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Economic Trends

BY GENE KORETZ

IT'S EVERYBODY'S MONEY GOING UP IN SMOKE

How much do nonsmokers shell out for the health care of smokers? In recent testimony before Congress, economist Jeffrey Harris of Massachusetts Institute of Technology, who is also a physician, provides some estimates.

Cigarettes, says Harris, are responsible for 20% of deaths in the U.S. and roughly 8% of all health-care spending. Assuming universal coverage by 1995, he expects medical expenditures that year to reach \$1.1 trillion and smoking-related outlays to hit \$88 billion. Of that, he says, only \$33 billion will be borne by current and former smokers via insurance, taxes, and direct payments. Nonsmokers will pay the other \$55 billion.

Harris figures that for every pack of cigarettes sold in 1995, nonsmokers will pony up \$2.32 to help cover the nation's smoking-related medical bill. In short, he says, "although it could cut consumption by as much as 12% over time, the Administration's proposed 75¢-a-pack hike in federal excise taxes, plus the current 24¢ federal tax, wouldn't come close to offsetting the costs imposed by smokers on the 63% of Americans who never acquired the habit."

WEAK OIL PRICES SHOULD BOLSTER U.S. GROWTH ...

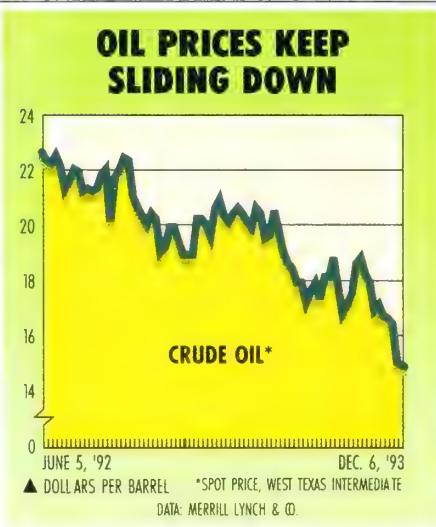
An apparent anomaly is gladdening forecasters' hearts. Just as the U.S. economy shows signs of accelerating, oil prices have taken a dramatic slide. At last count, benchmark crude prices had slumped to \$14 to \$15 a barrel, a five-year low. The economic fallout for the U.S. is lower inflation and faster growth ahead.

The late slide has convinced many observers that oil prices are likely to stay low for another year or so, and perhaps longer. Demand in much of the world remains depressed, with scant sign that major industrial economies overseas are close to turning up. Oil stocks are high, and exports from the North Sea and Russia are strong. Most important, in the face of weak prices and a growing risk that Iraq will resume oil exports, OPEC seems unable to agree on new production quotas.

Economists at DRI/McGraw-Hill believe crude prices over the next two

years will average \$16 to \$17 a barrel, about \$2.40 less than they were predicting just a month ago. Economist Irene King of Morgan Guaranty Trust Co. warns, however, that oil prices could fall close to \$12 a barrel for a while if Iraq resumes exports.

The impact of low oil prices on the U.S. economy, says economist Bruce Steinberg of Merrill Lynch & Co., should be evident in the inflation indexes over



the next few months, with the consumer price index rising by about four-tenths of a percentage point less than it would without the price drop. This could well blunt an anticipated seasonal uptick in inflation early next year.

Looking farther out, DRI/McGraw-Hill predicts that annual inflation will be reduced by two-tenths of a percentage point in the next two years under its latest oil price scenario. If prices stay close to \$15 per barrel, it adds, growth would pick up even more steam, and inflation would be cut by an additional one-tenth of a percentage point.

... BUT THEY WON'T SLOW A THIRD WORLD GUSH OF COMMODITIES

The lesson from the current disarray in global oil markets, says economist Tony Riley of A. Gary Shilling & Co., is that many commodity prices are likely to stay depressed for a long time. "The economic axiom that falling prices lead to curtailed supply," he says, "just doesn't work in a world in which major commodity producers are debt-laden developing nations dependent on export revenues." In such a situation, falling prices often spur producers to boost output to maintain earnings, a strategy that causes prices to fall still further.

In the case of OPEC, most major producers are heavily in debt, and Saudi Arabia has been running a rent-account deficit over the past decade. With such exporters as Algeria, and Nigeria dependent on oil for at least 90% of export earnings, it's no surprise that many OPEC members consistently cheat on their production quotas.

Similar problems plague copper and aluminum. As prices of these metals have plunged below production costs, producers in industrialized nations have cut output way back. But faced with the same dilemma, major exporters of less developed nations—Chile, Papua New Guinea, and Zambia in the case of copper, and the former Soviet republics in the case of aluminum—have boosted output in a desperate effort to shore up export income at any cost.

The upshot is greater gluts and weaker prices. "As long as this behavior persists," says Riley, "a modest global recovery is unlikely to put much upward pressure on commodity prices."

AT BIG COMPANIES, THE HEADS ARE STILL ROLLING

The employment outlook may be brightening considerably, but it hasn't affected the downsizing zeal of major corporations. Challenger, Gray & Christmas Inc., an outplacement firm that monitors announcements of layoffs, reports that its November tally of 67,632 jobs to be axed brings the year-to-date total to 583,797 cuts, about 10% above the tally for all of 1991, when the U.S. economy was just emerging from a painful recession.

According to the Challenger report, General Motors Corp. led the staff-reduction parade in November, with plans for job cuts of 18,000, followed by such companies as Philip Morris, NCR, and E.I. du Pont de Nemours & Co. For 1993 as a whole, industries announcing the largest layoffs have been aerospace, computer, and retailing.

Meanwhile, *Human Resource Executive* magazine reports in its forthcoming January issue that half of the nation's top 50 employers shed jobs in 1993, compared with 36% who expanded work rolls. Wal-Mart Stores Inc. cut the most jobs—some 82,000—while Roebuck & Co. led the job-shedding parade, with cuts of some 169,000. Despite the latest bloodletting, which resulted in a net shrinkage of 147,000 jobs last year, the magazine reports that the top 50 employers have nevertheless added a net 460,000 jobs in the past six years.

Monthly Report to Product Managers

Current analyses of the marketplace strongly suggest that electronic instruments will grab an ever increasing share of the market for musical instruments. To stay competitive in the next decade, Encore must pursue this growing business. Executive management is committed to making a sizable investment in research and development over the next five years to make this possible. To this end, Encore will form an electronic Instruments division headed by Vice President Don Hall. The existing organization will be renamed the Acoustics division to be headed by Vice President Greg Perlot.

It's all up to you!

While our entry into the electronic instrument business means the company will need to recruit outside personnel, executive management is interested in moving a core group of current product managers to

In 1981, Microsoft created the MS-DOS operating system. The first time, it became possible for you to work on a personal computer.

Microsoft Excel						
File	Gallery	Chart	Format	Macro	Window	Help
REVENUE.XLS						
B	C	D	E	F	G	H
Encore Musical Instruments						
Division Revenue by Region (in thousands)						
	1990	Q1	Q2	Q3	Q4	Totals
Acoustics Division						
Asia		31,850	24,620	27,215	39,715	123,400
Australia		25,075	16,225	20,155	30,845	92,300
Europe		40,575	36,520	33,450	50,155	160,700
North America		48,525	41,380	42,415	57,780	190,100
South America		24,600	22,355	19,760	31,685	98,400
Acoustics Total		170,525	141,100	142,995	210,180	664,900
Electronics Division						
Asia		31,675	27,155	31,625	36,245	126,700
Australia		23,475	21,870	19,030	29,525	93,900
Europe		40,250	35,465	37,320	47,965	161,000
North America		51,550	44,755	47,465	54,430	198,200
South America		23,325	19,255	22,630	34,090	99,300
Electronics Total		170,275	148,500	158,070	202,255	679,100
Total Revenue		340,900	289,600	301,065	412,435	1,344,000

In 1990, Microsoft Windows 3.0 gave your computer a friendly personality that made it easier to use.

THE LAST FEW YEARS HAVE BEEN LEADING UP TO SOMETHING.

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a whole new way to work with your computer.

INTRODUCING THE NOW ALL YOUR PROGRAM

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Microsoft Office



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Microsoft Office



The Microsoft Access database is the most flexible and powerful way to work with information. Want to know which clients placed an order today? The answer is a point and click away.

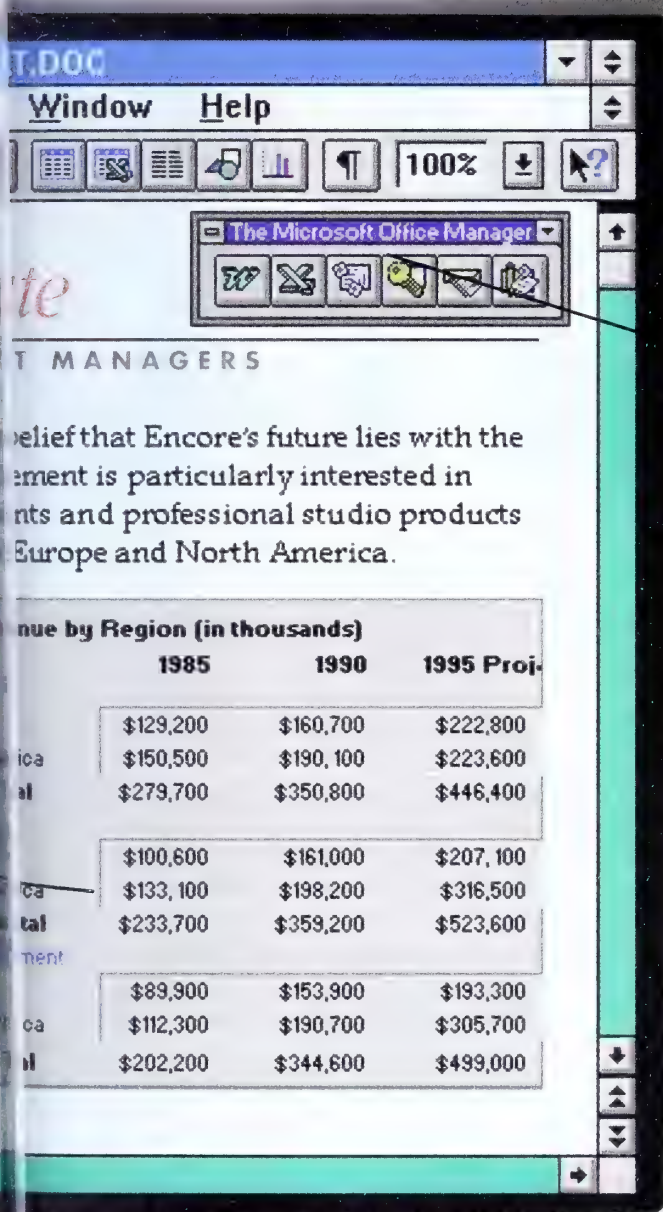
Microsoft Office



Instantly turn any information into effective presentations using new PowerPoint 4.0. Helpful wizards guide you through the steps to get the results you want.



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Microsoft Office

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INFLATION: WHEN WILL THE FED MAKE A PREEMPTIVE STRIKE?

Former Federal Reserve Board Chairman William McChesney Martin once said that it's the Fed's job to take away the economy's punch bowl just when party gets going. He was referring to hiking interest in the face of rapid growth that might fuel inflation. Now, economists are beginning to wonder if the Greenspan Fed is about to holler "last call." Strong growth and potential inflation are clearly on the Fed's mind. In fact, Fed Vice-Chairman David W. Warsh Jr. went so far as to say on Dec. 7 that monetary policy is at an "important crossroads," a time that comes maybe only "once every decade." His comments ears prick up from Washington to Wall Street. The question now is not will the Fed tighten, but when?

The economy is certainly on a roll. The latest sign comes from a key area: the labor market (page 34). November payrolls scored a solid gain, the jobless rate dropped sharply, full-time jobs replaced part-time work, and the factory workweek hit a postwar high (charts).

In October, the government's refurbished index of leading indicators rose for the third month in a row, and consumers felt frisky enough to add a huge \$1 billion to their installment debt. The data are more encouraging than that fourth-quarter growth could top 4% and the economy has momentum heading into 1994.

To be sure, even though Mullins—or anyone else—would be hard-pressed to point to signs of an imminent pickup in inflation, the Fed will want to hike rates preemptively before price pressures become ingrained. As a result of its upcoming meeting on Dec. 21, the Fed is very likely to make an official shift in its policy predisposition. It could bias its next action toward tightening. Is a rate hike just around the corner? Not necessarily. With so much slack in the economy, with excellent productivity growth to hold down unit labor costs, and with intense domestic and global competition to curb price hikes, it will take more than a single quarter of 4%-a-year growth to generate a new round of inflation. The economy's peppier tone was evident in the Fed's roundup of regional economic activity through Nov. 15. The report gave "a more optimistic" outlook than the other surveys, with manufacturing, housing, and con-

sumer spending all improving. In particular, holiday shopping, the report said, "got off to a good start."

However, the Fed will want to see how growth is progressing early next year before making a move. While the economy's momentum should carry over into the new year, growth is unlikely to match the fourth quarter's pace. That's partly because contributions from consumer spending and auto production, two big pluses this quarter, will be smaller. All this suggests that any Fed tightening may not come before spring—if then.

And don't forget falling oil prices. If crude remains at current levels—around \$15 per barrel for West Texas Intermediate—through 1994, oil will be some \$3 per barrel cheaper than in 1993. A decline of that size could subtract up to half a percentage point from the rate of consumer price inflation. Inflation, now headed for a seven-year low in 1993, could end up even lower in 1994.

FACTORY PAYROLLS SEEM SURE TO RISE

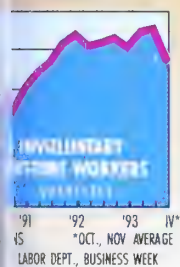
The Fed undoubtedly will be keeping a cold eye on the warmer job markets for early signs of wage pressures, but none are likely to show up anytime soon. The 0.4 percentage-point drop in the November unemployment rate, to a three-year low of 6.4%, raised some eyebrows. It was the largest monthly decline in 10 years, and it suggested a rapid tightening in the job market.

However, data for the labor force—which includes both workers and job seekers—have bounced around in recent months, actually falling in November. This suggests that the November drop in joblessness was overstated, and the December rate may tick back up.

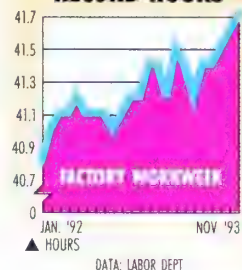
The better tone of the labor markets is real, though. Payrolls rose by a healthy 208,000 workers last month, for a three-month gain of 552,000 and a 12-month increase of just under 2 million. November hiring was the broadest in four years, with 61% of the 356 industries surveyed adding to their payrolls.

Also, the quality of new jobs improved. The number of people working part-time because they could not find full-time jobs fell for the second month in a row, to the lowest level in more than two years. And higher-paying jobs in the goods-producing industries scored gains. Manufacturing and construction added about 30,000 jobs apiece in November, bringing the two-month increase in both sec-

MORE 'REAL' JOBS?



WORKERS PUNCH IN RECORD HOURS



Business Outlook

tors combined to 102,000, the strongest such showing in five years.

More hiring in manufacturing and construction seems likely. The factory workweek rose to a postwar record 41.7 hours in November, up from 41.6 hours in October. Overtime, up to 4.4 hours from 4.3, was also a record.

With the workweek so long, with orders up three months in a row, and with the ratio of inventories to sales at a record low, factories will be gearing up both output and payrolls in coming months. And the rebound in housing will keep construction payrolls expanding.

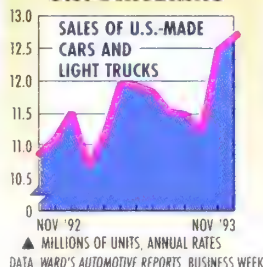
WHY PAY HIKES WON'T FUEL INFLATION

A big reason why the Fed won't have to play party pooper soon is that wage growth, while strong enough to lift consumer spending, is not fast enough to

touch off inflation worries.

In November, hourly wages rose 0.2%, to \$10.94, after a 0.6% gain in October. Weekly pay was up an even stronger 0.5% in November, boosted by the long workweek, especially in overtime. The gain in weekly pay, along with the strong job growth, suggests that personal income scored a healthy increase last month.

NEW VEHICLES CROWD U.S. DRIVEWAYS



costs fell at a 0.6% pace, and productivity is on track to score another impressive gain this quarter.

Fatter paychecks are fueling consumers' urge to

splurge. But what's interesting about this holiday season is the buying spree in durable goods, such as furniture and appliances. That reflects the spillover effects of the recent strengthening in housing demand.

In addition, sales of domestically made vehicles have been roaring (chart). Cars and light trucks sold at an annual rate of 13.4 million at the end of November—a hit only one other time in the past two years. That pushed monthly purchases of vehicles to 12.7 million, highest pace in almost three years.

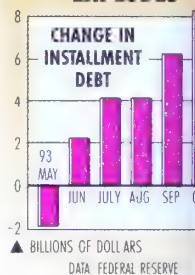
In light of all of the spending on durable goods, it should not be surprising that consumers are borrowing more, because most big-ticket items are financed. Installment credit surged again in October, by \$8.1 billion. That was the fourth consecutive month that consumer credit has increased by more than \$5 billion (chart).

Auto financing was the driving force behind the October borrowing binge. It rose \$3.9 billion—the largest monthly gain in more than five years. And revolving debt, which includes credit cards, increased \$3.2 billion, on top of a \$3 billion advance in September.

This increased use of credit indicates that household budgets are in better shape than they were a year or two ago. Another sign of healthier finances: The Mortgage Bankers Assn. reports that 4.21% of mortgages were delinquent for more than 30 days in the third quarter, the lowest rate in 19 years.

To be sure, at some point in this expansion, employment and industrial operating rates will start rising fast enough to heat up price pressures. And it's likely that before long, the Fed will move to restrain the economy from suffering an inflationary hangover. But that act of temperance still seems several months away. Until then—cheer

CREDIT USE EXPLODES



THE WEEK AHEAD

RETAIL SALES

Tuesday, Dec. 14, 8:30 a.m.

Retail sales probably increased a solid 0.5% in November, predict economists surveyed by MMS International, a unit of McGraw-Hill Inc. Store receipts jumped 1.5% in October, and strong car buying in November ensures another good gain. Even excluding car sales, retail buying likely rose 0.4% in November, on top of a 0.9% advance in October.

INDUSTRIAL PRODUCTION

Wednesday, Dec. 15, 9:15 a.m.

Output at the nation's factories, mines, and utilities likely increased by 0.6% in November after a 0.7% advance in October. That's suggested by the 0.6% in-

crease in total hours worked in the factory sector last month. The projected November gain would mean output is growing at a 5.5% rate in the fourth quarter. The expected production jump also indicates that the capacity-utilization rate for all industry rose to 82.8% in November from 82.4% in October.

BUSINESS INVENTORIES

Wednesday, Dec. 15, 10 a.m.

Inventories held by manufacturers, wholesalers, and retailers were probably unchanged in October, following a 0.3% gain in September. Manufacturers have already reported a 0.1% decline in their stock levels. Business sales probably rose 0.8% in October, the same increase as in September.

MERCHANDISE TRADE DEFICIT

Thursday, Dec. 16, 8:30 a.m.

The trade deficit likely narrowed to \$1 billion in October, from \$10.9 billion in September, according to the MMS survey. Exports rose for the third month in a row, while imports, which hit a record high in September, fell back in October.

HOUSING STARTS

Friday, Dec. 17, 8:30 a.m.

The MMS economists expect that housing starts rose to a 1.4 million annual rate in November, the fourth straight gain, so, starts would be at the highest level since early 1990. Low mortgage rates, better job growth, and rising consumer confidence are lifting homebuilding.

Here are five compelling reasons to break the HP® LaserJet® printer habit: the IBM® LaserPrinter 4039 family by Lexmark. Five fully compatible 10, 12 and 16 page-per-minute printers — each delivering big-printer features and value. PostScript® and PCL® 5 compatibility are always standard. So is a clear, simple LCD control panel. And support for options like networking, flash forms and duplexing. Plus expandability and upgradability, to protect your investment.

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Upgradable code and
interchangeable options
for economy and flexibility
HP printers can't match



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Two-sided printing.

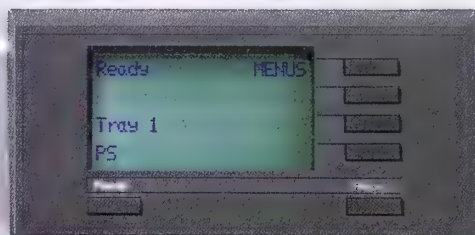
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O.K., BACK TO WORK

HIRING IS UP—AND NOT JUST FOR BURGER-FLIPPERS

Arnold Bennett has a job. Not headline-making news, perhaps, but it is significant enough. In April, Bennett and his family left an unpromising future in Florida to return to his native New England. Come September, the 30-year-old found work with Cabletron Systems Inc., a maker of computer networking equipment in Rochester, N.H. Bennett now makes about \$32,000 a year supporting Cabletron's outside sales reps. "The opportunities, long-term, are incredible," he says.

Bennett is one of the more than 1,500 workers Cabletron has hired in the past year. The company, which has seen sales increase tenfold in the past five years, to \$600 million, is still adding workers at the rate of three to four a day. Its hires, predominantly white-collar, college-educated employees, earn an average of \$28,000 a year.

SMALL WORLD. It is companies such as Cabletron—small-to-midsize, rapidly growing exploiters of new technologies and niche markets—that are driving job growth today. Many have been expanding aggressively, while such corporate giants as IBM, Philip Morris, and RJR brutally slash payrolls. On Dec. 8, Xerox Corp. became the latest, announcing a restructuring that will pare 10,000 of its 97,500 workers. "It has been the smaller, entrepreneurial companies like ourselves that have been doing the hiring," says Wayne LoCurto, president and chief executive of Actmedia Inc., a division of Heritage Media Corp. that creates ads for grocery carts. For two years, LoCurto has been bringing a few people a month into his growing company, which now employs 550.

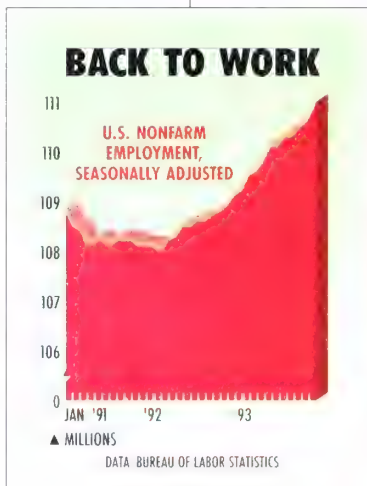
Such job growth helps explain why

the U.S. added 208,000 new jobs in November, and why more than 1.8 million workers have joined the nation's payrolls in the past year (chart). Gains came across a broad range of industries—everything from construction to health care to financial services (table). Even the battered manufacturing sector gained 30,000 new jobs.

So much for the jobless recovery. Growth and low inflation have been hallmarks of the U.S. economy for nearly two years. The missing ingredient: employment. It was improving, but too slowly to boost confidence. The November report shows that healthy consumer demand and lean inventories finally are bringing large numbers of Americans back to work. "This is the first good set of data I've seen in a long, long time," says Janet Norwood, an Urban Institute economist and former Bureau of Labor Statistics commissioner.

There are weak spots, certainly. The defense industry still is getting hammered, with aircraft and instrument makers shedding 115,000 jobs in the past year. Most economists believe the defense shakeout, which has eliminated 340,000 jobs since 1988, still has two or three years to go. Tax hikes in 1994, moreover, could dampen spending in other industries, and small companies fear that President Clinton's health-care plan will short-circuit growth.

But even California, where defense cuts have sliced deepest, is coming back. Housing starts and retail sales are up, and biotechnology and software companies in Silicon Valley have taken up slack from the missile makers down south. Sybase Inc., an Emeryville (Calif.) software house, is adding more than 100



workers a month. Biotech startup Therapeutics, in Mountain View, is doubling its work force, to 85 people.

Strong hiring by these employers, coupled with the turnaround in interest-rate-sensitive industries such as home building and furniture and appliance manufacturing, should keep the job market humming into next year. Even in Detroit, reversing years of job losses, is hiring again. Since mid-1992, Chrysler Corp. has called back 2,700 laid-off factory hands and hired 4,400 new ones, such as the 110 workers added early December to build V-10 trucks.



CONSTRUCTION

Low rates have kicked off a boom in housing, creating nearly 200,000 jobs. Related industries such as appliances and furniture also are booming.



MUCH OF THE NEW GROWTH IS COMING FROM SMALLER COMPANIES SUCH AS ACTMEDIA, WHICH CREATES ADS FOR SHOPPING CARTS. IT HIRES A FEW NEW WORKERS EACH MONTH

grads, who earn \$26,000 as management trainees. A Dec. 5 survey by the Collegiate Employment Research Institute at Michigan State University found employers planning a 1.1% increase in college hiring in the next 12 months—the first uptick in four years.

Smaller employers are feeding on the restructuring of Corporate America, many of them hiring seasoned workers laid off by bigger companies (page 82). Gene Banucci's seven-year-old Advanced Technology Materials Inc. in Danbury, Conn., designs semiconductors made from diamonds. It is work custom-made for engineers let go from IBM's nearby research labs. Banucci pays less than Big Blue. But he offers a looser environment, stock options, and the chance to spin an idea into a new venture.

"It's a challenge and an opportunity," says Banucci. He is adding 12 employees a year—one-third of them from IBM.

TRUCKS AND TUBES. It isn't just the technological transformation of America that is boosting employment. Old-line industries, pared to the bone in recent years, are seeing resources strained by orders for big-ticket items. Zenith Electronics Corp. recently added a new production line to its Illinois television-tube plant, boosting hourly employment nearly 10%. One stimulus of demand: the North American Free Trade Agreement, which removes duties on U.S.-made tubes for TVs made in Mexico.

Another old-line company, Caterpillar Inc., is adding 670 factory workers, about half of them recalled from earlier layoffs. Many will earn \$17 an hour, with full health benefits. Caterpillar has been running 10%-plus overtime levels in recent months to keep pace with surging orders for heavy-truck engines. "That's much more than is reasonable," says human services Vice-President Wayne M. Zimmerman. Indeed, the average national workweek of 41.7 hours is the highest it has been since World War II.

That's one reason the hiring boom likely will continue. Want more? Continuing low interest rates and higher consumer demand. Many companies already have aggressive hiring plans for 1994. If the world economy finally gets going, kicking U.S. exports into gear, look for solid employment for a long time to come.

By Tim Smart in New Haven and Howard Gleckman in Washington, with bureau reports

in a factory in suburban Detroit. Jobs? That's no contradiction. "I think you've got a steady increase in manufacturing employment," says Peter Financial Services Inc. economist John Silvia. "I don't think the last few months were just a blip." One dollar indicator: Cintas Corp., a Cincinnati-based uniform maker that rents more than 1 million outfits at a time, says its existing customers have increased employment by about 1.5% in the last year.

And, most job creation remains in the service sector. But these new workers

aren't all minimum-wage burger-flippers. Teleretailer CUC International Inc. is hiring sales and service people for entry-level jobs paying from \$30,000 to \$50,000. Denver-based Janus Funds, where managed assets have soared almost 50% since 1992, to \$22 billion, has seen employment increase 41%. Many new hires come with knowledge about computers and telecommunications, the backbone of any modern-day finance company.

Ditto at The Principal Group. The financial-services outfit added 600 hires this year. High in demand: new college

EDS OF JOB GROWTH

employment since Nov., 1992

ARE 3.7%

0 new jobs in 1993. Hiring should be population ages, though health change the mix of jobs.

SERVICES 2.8%

managers are finding work again. So brokers. The result: 90,000 new jobs.

RY SERVICES 19.1%

vice companies have hired nearly as last November as manufacturers companies rely more on temps.



AUTOS AND TRUCKS 4.0%

Detroit is building them, repair shops are fixing them, and attendants are parking them. Employment is up by 154,000.

FINALLY, GATT MAY FLY

As patchwork trade pacts sprout worldwide, it's the last chance



They've dragged on for seven long years. As time passed, the global negotiations known as General Agreement on Tariffs & Trade came to look more and more like an aimless and trivial talkathon. Again and again, cynics declared the talks dead. And negotiators repeatedly shrugged and said: "There's always tomorrow."

But now, the improbable is at hand. The current round of talks among the 116 members of GATT is headed toward its do-or-die deadline of Dec. 15—and a breakthrough is in the air. Barring a last-minute glitch, the negotiations could pave the way for a new world trade order designed for the 21st century.

The final accord is expected to slash tariffs on manufactured goods, the traditional work of GATT rounds. And though many U.S. companies are grumbling about it, this deal could blaze new trails by cutting agriculture subsidies, toughening copyright and patent protections, and opening foreign markets to a range of services from investment banking to telecommunications. The goal: a booming international marketplace where products and services glide effortlessly across national borders. "This is a big deal," says Robert E. Rubin, head of the White House National Economic Council.

Indeed it is. But why is it finally coming together? For one thing, negotiators realize that this time, there will be no tomorrow. The Clinton Administration and Congress have made it clear that they won't extend fast-track authority if no deal is announced by the Dec. 15 deadline set by Congress.

"LEAPS AND BOUNDS." Meanwhile, export-minded countries have been adopting GATT-like proposals in bilateral and regional trade deals, such as the North American Free Trade Agreement. Countries left out of these trading blocs have greater incentive to go along with a global pact. "The integration of the world economy has been growing by leaps and bounds," says Robert Hormats, vice-chairman of Goldman, Sachs & Co. "This

will provide a framework of rules that help to sustain the progress already made."

Then there's the world economy. Political leaders in recession-wracked Japan and Europe recognize that trade has become the most powerful locomotive of economic growth. That's making GATT look irresistible. After all, seven rounds of GATT negotiations since 1948 have reduced the average worldwide tariffs on manufactured goods from 45% to 5%, and each round has been followed by a period of robust global growth.

Which industries will be affected most? This round would reduce the world's remaining manufacturing tariffs by 30% while phasing out all limits on imported clothing. And for the first time, GATT is tackling powerful farm interests by trimming agricultural subsidies in industrial countries by 21% over six years. The accord also should provide new global rules for services. In the short term, the pact won't have discernible benefits, but by 2002, it could boost world merchandise trade alone by up to 10% a year, or \$270 billion in current dollars, says the Organization for Economic Cooperation & Development.

Europe stands to gain the most. Its exports of everything from wine and cheese to high-tech gadgetry could lift itsailing economies. For political reasons as well, the European Community (EC)

THE GATT PAYOFF

After years of haggling, a GATT deal is expected to be cut by Dec. 15.

The goal: A booming international marketplace. Here are some effects:

MANUFACTURING

By 2002, falling trade barriers would add \$270 billion to the value of goods produced worldwide—an 8% boost in global gross domestic product.

DATA: ORGANIZATION FOR ECONOMIC COOPERATION & DEVELOPMENT, BRUSSELS

sees a GATT deal as critical to proving that Europeans can act in concert. In the wake of its failure to move toward economic integration, the failed GATT round would splinter the European Community," warns a veteran European diplomat.



...ile they gripe publicly, Europeans
tely believe they're paying a mini-
rice for these benefits. French and
an farmers face the loss of some of
their cherished sub-
sidies and protec-
tions, but these
goodies would
be phased out
more slowly



AGRICULTURE

would cut \$300 billion
in subsidies paid by
industrialized nations to prop
up farmers. That should
allow prices to drop and give
developing nations an
edge in world

SERVICES

...the world
...everything
...insurance to
...h consulting,
...benefit from
...liberalization of
...governing international
...a range of services.



...than original-
...ly planned. And France
...no longer be able to limit im-
...U.S. films on cultural-sovereign-
...nds, but it plans to continue to
...its own film industry.

For American companies, the pact should be a boon. The U.S. should have a decided edge in services. Software companies could see sales and profits soar as a result of tougher intellectual-property protections. Microsoft Corp., with annual sales of nearly \$4 billion, hopes the pact will shrink considerably the estimated \$12 billion the software industry loses each year to piracy. And Digital Equipment Corp. stands to gain from a rollback of the 14% tariff the EC imposes on semiconductors and a 4% levy on computer parts, such as subassemblies. "A reduction in the EC tariff is the litmus test of GATT for Digital," says Assistant General Counsel Bruce E. Holbein. "It's money on the table." Holbein expects the deal to eliminate two-thirds of the EC tariffs by 2000.

Japan, which has long counted on exports to drive its economy, would also benefit, but at a price: greater access by foreigners to its wood, nonferrous metals, liquor, financial-services, and government-procurement markets. "We expect to have increased imports, and not just of rice," says Tatsuya Terazawa of Japan's Ministry of International Trade & Industry.

Developing nations should benefit as well: They would get a chance to tap rich export markets for their budding manufacturing and agricultural industries. "The big guys can make their way, agreement or no agreement," says Chris Johnson, a Hong Kong trade official. "But as a small player, we really depend on a strong set of rules."

To gain that access, however, these countries will have to start playing by the rules in the accord that prevent them from pirating Hollywood movies and patents and copyrights on other products. "We hope it will allow us to sell our products instead of having them ripped off," says Lotus Development Corp. General Counsel Thomas M. Lemberg. He says more than 80% of the software used in India, Italy, Japan, and Spain has been illegally copied.

In Latin America, the GATT winners should be countries such as Mexico, Argentina, and Chile, which have already opened their economies to foreign competition and investment. Argentina, which exports \$4.5 billion worth of agricultural products such as grains, oilseeds, and meat, expects a 10% boost from GATT. "GATT will be very good for small countries such as Argentina," says economist Marcela Cristini of the Fundación de Investigaciones Económicas Latinoamericanas in Buenos Aires.

Mixed with the euphoria, however, are some grave concerns. To reach an accord, bargainers have to agree to phase in changes gradually so that the full effects of trade liberalization won't be felt until 2005. And even as the final details are being written, many participants are getting squeamish. Like newlyweds plunking down their first mortgage payment, countries and companies facing the prospect of trade liberalization are being hit with buyer's remorse.

ENFORCEMENT WORRIES. Take U.S. health-care-equipment makers, who expect an additional \$300 million in exports thanks to GATT. Asian markets for pacemakers, artificial limbs, and sophisticated medical devices have been growing by 20% a year. But companies fear that the U.S. will lose its authority to punish unfair trade to a vague GATT dispute-settlement process. "Enforceable U.S. trade law is worth a heck of a lot more to us than selling a sack of potatoes in China or a pound of rice in Japan," says Edward M. Rozynski of the Health Industry Manufacturers Assn.

American steelmakers worry that the Commerce Dept. will be stripped of its power to slap taxes on foreign steel dumped in the U.S. And the semiconductor industry is apoplectic over new rules that would let other countries force chipmakers to license their most prized products. Financial-service companies fear that invisible trade barriers will continue to keep Asian markets closed while the U.S. makes market-opening concessions at home. "It doesn't take a nuclear physicist to know that this is a bad deal," says Margaret Wigglesworth of the Coalition of Service Industries.

Such jitters among politically powerful industries explain why GATT has been kicking around for seven years. But last-minute compromises should quell such fretting. For six years, Decembers have come and gone while the Uruguay Round was extended. This time, the fear of no tomorrow just might give GATT new meaning: the Global Agreement to Trade & Trade.

By Douglas Harbrecht and Owen Ullmann in Washington, with Bill Javetski in Paris, Geri Smith in Mexico City, and bureau reports

FARMING



KOLK SEES A THREAT FROM THE SOUTH

OLD McDONALD HAD A LOBBY

Canada's agriculture trade barriers are just what GATT would topple



For a Yankee company, Tops Markets Inc., western New York's largest grocery chain, enjoys quite a cachet with Canadians—thousands of

whom flock across the border to buy food there. Little wonder: Butter, at \$1.29 a pound at Tops, costs twice as much in Ontario. Eggs and chicken are at least a third higher.

Why such exorbitant prices north of the border? Blame Canada's farm marketing boards, which protect politically potent dairy, poultry, and egg farmers. The boards are a textbook example of the kind of agricultural trade barriers GATT aims to eradicate.

SHELL SHOCK. If Canada loses its dairy and poultry protection, as expected, U.S. companies eventually will benefit—to the tune of \$1 billion-plus a year. Americans now are limited to less than 10% of the \$8 billion Canadian market.

Take chickens. U.S. companies such as Tyson Foods Inc. are now held to just 7.5% of the market, and the lack of competition has kept Canadian prices so high that KFC must charge \$14 (in U.S. dollars) for a bucket of chicken in Canada that costs just \$9 in the U.S.

Still, Canada is loath to drop its barriers. Farmers such as John Kolk, an Alberta chicken producer, worry that GATT could destroy many of Canada's family farms. To head off the threat, Canada is now talking about instituting steep tariffs on vulnerable products. But it might be better just to let consumers benefit from lower prices. Another plus: all the gas Canadians won't burn driving across the border to get bargains.

By William C. Symonds in Toronto

Commentary/by Paul Magnusson

WHAT A GATT DEAL WON'T DO



It's 1995, and the new global trading rules agreed to in 1993 are in place. Television producers in France, rice farmers in Japan, and underwriters in India all embrace unfettered competition as good for the world economy. A new era of expanded trade dawns, as old barriers wither.

Unlikely? Sure is. For one thing, the compromises made in the seven-year struggle toward a General Agreement on Tariffs & Trade mean the final pact will fall short of its original promise. More important, the world has changed since this round of talks began in Uruguay in 1986. Another round will soon be needed on issues ranging from the environment to human rights to anti-trust. "If we don't want special interests to dictate the next trade agenda

on an ad hoc basis, we'll have to build on this agreement," says Paula Stern, former chair of the International Trade Commission.

After implementing the twin pillars of Republican trade policy—the North American Free Trade Agreement and GATT—the Clinton Administration will want to make its own mark. Its best chance: reforming the GATT codes that hinder U.S. use of trade sanctions to end such environmental outrages as drift-net fishing and trafficking in rhino horns and tiger penises.

CANS OF WORMS. New technologies also call for new trade rules. Charging "cultural imperialism," countries from France to South Korea have attempted to limit Hollywood's exports. But what rules will govern movies-on-demand and broadcast by cable and satellite? And how about biotechnology, still in its infancy when this round of talks began? Licensing requirements and unwarranted safety rules shouldn't be allowed to stifle development. And what of efforts among emerging nations to fix prices on pharmaceuticals in order to make them available to a wider group? There should be limits.

And how much should nations seek to harmonize their antitrust policies? A

system of vertically integrated industrial and financial conglomerates, Japanese *keiretsu*, wouldn't be tolerated in the U.S. But in Japan, they are a way of life. The next round of talks should focus on the issue.

Admitting emerging market economies in China, Eastern Europe, the former Soviet Union, and Vietnam membership in GATT should also be on the agenda. Western Europe has been loath to admit imports—particularly farm goods—from the former Warsaw Pact nations. Admitting them would lower barriers to their goods.

There will be plenty of disputes over from current talks as well. Consider subsidies for research and development. The antisubsidy U.S. position was formulated by Republican Administrations hostile to the idea of industrial policy. But Clinton sees nothing



SHOPPERS IN JAPAN: KEIRETSU RAISE ANTITRUST IS

wrong with an industry-government effort to develop clean cars. The new will have to be clarified.

And finally, there are tariffs. When the first GATT talks began in 1947, worldwide tariffs averaged 45%. If the new round is implemented, they will drop to near 5%. But huge tariffs still protect such industries as glassware and European semiconductors. It may seem an odd notion to begin trade talks as soon as the current ones are concluded. But it is trade accounting for an ever increasing share of each nation's economy, there are too many issues too important to lie fallow.

Magnusson covers economic policy

SIGNPOSTS ON THE INFORMATION HIGHWAY

Recent major deals between Baby Bells and cable companies

US WEST & TIME WARNER May 1993

INVESTMENT: \$2.5 Billion

U.S. West gets 25% of Time Warner's cable and programming properties, and will help upgrade its cable systems to provide interactive services.

BELL ATLANTIC & TELE-COMMUNICATIONS October 1993

INVESTMENT: \$12 Billion

Bell Atlantic buys out the largest cable operator, which also owns stakes in Turner Broadcasting System and Home Shopping Network.

NYNEX & VIACOM October 1993

INVESTMENT: \$1.2 Billion

Nynex gets preferred equity stake in Viacom, which is investing the cash in its bid for Paramount Communications. Size of stake depends on the outcome.

BELLSOUTH & QVC November 1993

INVESTMENT: \$1.5 Billion

BellSouth buys common and preferred stock in QVC and supports its bid for Paramount. Investment would be scaled back if bid fails.

SOUTHWESTERN BELL & COX ENTERPRISES December 1993

INVESTMENT: \$1.6 Billion

Southwestern gets 40% of a joint venture that owns Cox's cable systems. Cox's programming assets excluded for now.

NEEDS GOVERNMENT APPROVAL
PURCHASE OF OTHER TCI ASSETS

SEEK COMPANY REPORT
BUSINESS WEEK

SOUTHWESTERN BELL AND COX: DEAL WITH A DIFFERENCE

Like other phone-cable ties, this one shuns the multimedia hoopla

You know media mergers have become background noise when two giant companies announce a billion-dollar alliance and the public response is: "Another one?"

Well, this deal might be different. On Dec. 1, Southwestern Bell Corp. said it will invest \$1.6 billion for a 40% stake in cable systems owned by Cox Enterprises Inc. That gives the Baby Bell access to the nation's sixth-largest cable system, with 1.6 million subscribers.

At first, this sounds like merely the latest in a series of gazillion-dollar deals as the Baby Bells rush to buy into blue-chip cable operators and programmers (taken over with total assets of \$4.9 billion, including the value of Cox's cable systems, Southwestern's venture seems the next to the remarkable merger with Bell Atlantic Corp. and Tele-Communications Inc.

NO MULTIMEDIA. But Southwestern and Cox seem a lot more sensible. For one thing, the partners are shunning the multimedia hype that pervaded other deals. "Multimedia is a license to lose money," says James O. Robbins, president of Cox Cable, who will run the venture from Cox's Atlanta headquarters. Instead, the two companies are focusing on cable distribution, using Southwestern's cash to buy new systems. Their goal is to become a cable superpower on par with TCI or Time Warner. If that happens, says Robbins, it won't matter whether they own the programming they own: "You

want to be big enough so that no programmer can avoid you."

If it sticks to its restrained game plan, Southwestern will avoid the high-stakes gambles of rivals Nynex Corp. and BellSouth Corp. With investments in Viacom and QVC Network, respectively, those Baby Bells have entered opposing camps in the risky battle for Paramount Communications Inc. The winner gets a piece of a Hollywood studio, of course, but the loser will end up with a stake in a company smaller than Cox. The Southwestern-Cox deal "is a pragmatic joint venture in contrast to the other starry-eyed alliances," says Berge Ayvazian, an analyst at Yankee Group Inc.

Not that Southwestern is immune to the allure of programming. Earlier this year, the San Antonio company explored a deal with Viacom, which owns MTV and Nickelodeon. And Cox itself invested \$500 million in QVC Chairman Barry Diller's bid for Paramount. For now, though, the QVC investment, and Cox's stakes in cable networks such as the Discovery and E! channels, are not in the partnership. The deal earmarks some of the money for programming investments. But the partners say they will deal with that issue later.

By sticking to distribution, Southwestern and Cox also are less vulnerable if multimedia falls flat. US West and Time Warner Inc. are spending \$5 billion in their partnership—mainly to upgrade Time Warner's existing cable systems

for interactive services. As a result, their investment hinges on whether consumers will flock to these services. Southwestern and Cox, aiming to expand their system to 3 million or more subscribers, could build a valuable franchise regardless of whether multimedia is a boon or boondoggle.

Some observers argue that Southwestern's conservative stance is more a necessity than a virtue. "After Time Warner and TCI, the opportunities to accomplish an equivalent transaction were no longer possible," says Michael N. Garin, a senior banker at Furman Selz Inc., who is advising Sony Corp. in its effort to sell a stake in its Columbia Pictures film studio.

THIS YEAR'S MODEL. The cable industry welcomes the deal simply because it is another model for cooperation between cable and phone companies. Brian L. Roberts, president of another sought-after cable operator, Comcast Corp., says more such deals will follow. Rumors have U.S. West and Time Warner discussing a joint venture with Cablevision Systems Corp., the No. 5 operator, while Canadian giant BCE Telecom International Inc. recently paid \$400 million for 30% of No. 7 Jones Interchange.

Whatever its merits, the Southwestern-Cox alliance has the advantage of being less vulnerable to regulatory problems since it is nothing more than a phone company buying an out-of-region cable operator. Such issues now loom large: Cable executives say some lawmakers on Capitol Hill may object to BCE's investment in Jones, and they could also slow down the Bell Atlantic deal. By playing such a conservative hand, Southwestern and Cox may well realize their ambitions sooner.

By Mark Landler, with Bart Ziegler, in New York

LET'S BURY THE HATCHET —IN MICROSOFT'S BACK

In shifting its focus to software, Sun makes nice with old rivals

For years, they were the best of enemies. Steve Jobs's NEXT Computer Inc. had targeted Scott McNealy's Sun Microsystems Inc. as rival No. 1. McNealy dismissed NEXT as an overhyped also-ran—until Nov. 22, when he announced plans to invest \$10 million in NEXT and use its pioneering software technology in future Sun offerings.

That's how badly Sun wants to make it big in software. The Mountain View (Calif.) company made its fortune on engineering workstations, the powerful desktop computers used to design chips, cars, and software. But Sun's hardware is getting rusty: Its Sparc microprocessor hasn't kept up in speed with rival chips from IBM, DEC, Hewlett-Packard, and Silicon Graphics. Sun's profits last fiscal year, ended June 30, fell 10%, to \$157 million, on a sales gain of 20%, to \$4.3 billion.

So on Dec. 10, in a bold but risky attack on software king Microsoft Corp., Sun will begin shipping software called Wabi that allows Sun and other workstations to mimic IBM-compatible PCs running Microsoft's Windows. Sun also is moving aggressively to write basic operating software for the vast PC arena, corporate networks, and a host of new consumer devices (table).

"A LOT TO PROVE." Software may be the best hope Sun has for carving out a sizable and lasting piece of the computer business. In the long run, it hopes to sell more computers by persuading customers that Sun workstations offer the best operating systems, the master-control

programs that govern how a computer runs. Hence, its aggressive push to widen the market for Solaris, its operating system based on Unix, and a raft of complementary products. If they don't sell, Sun likely will become just another hardware maker playing a low-margin game of follow-the-leader.

In this new world, Sun is mostly up against Microsoft, which sells more operating systems in a week than Sun sells in a year. Moreover, Microsoft now has



JOBS AND McNEALY: A YEAR'S LEAD ON WINDOWS NT?

a potent new weapon, Windows NT, that promises to match Solaris' ability to run large networks of computers by next year—and run all PC software, too. "We've got a lot to prove," concedes Edward J. Zander, president of Sun's SunSoft unit.

Sun's edge: NT can't run big networks yet, and Solaris can. For a decade, Sun has been perfecting the new paradigm in computing: the replacement of rigid mainframes with flexible networks of PCs, workstations, and low-cost servers.

Large customers that have tested Solaris give it much higher marks than Windows. How to exploit that window of opportunity: get Solaris to run on as many computer brands as possible, which will encourage more programs to be written for it and, in turn, interest more buyers. For now, Solaris' 8,500 applications are next to the 50,000 available on PCs.

That's why Sun agreed last April to back a so-called Common Open Software Environment that will make Unix versions from Sun, IBM, HP, Novell, and Santa Cruz Operation look and work the same way. More important, it has revealed Solaris to work on IBM-style PCs. Next year, the software will appear on PowerPC machines due out from IBM and Apple Computer Inc.

OBJECT LESSON. Is Sun overreaching? It has sold only 15,000 copies of Solaris x86, the PC version, since last May.

Wabi, intended to nullify NT's advantage in running Windows-compatible programs, so far runs only about a dozen—and quite slowly, at the time of this writing. Says Microsoft Vice-President Jack E. Allchin: "The probability of getting lots of applications running on Wabi will be very small."

Sun's best chance may be a longer-term bet—object-oriented technology, which turns software into modules that make it easier to write and use. That's where NEXT comes in. Analysts say building NEXT's highly regarded object-oriented software

into Solaris gives Sun a year's lead over Taligent, an IBM-Apple venture, and Microsoft. The NEXT deal also will help Sun's FirstPerson unit, which is working on a Solaris-compatible operating system for consumer devices that will tap into an Information Superhighway run by workstations—perhaps Sun's. So NEXT is the friend, Microsoft the enemy. Microsoft will be tougher.

By Robert D. Hof in Mountain View, Calif., with Richard Brandt in San Francisco

SUN'S SOFTWARE OUTLOOK

How Sun Microsystems' expanding universe of software stacks up



PARTLY CLOUDY

SOLARIS

This battle-tested version of the Unix operating system is catching on. But many PC software titles don't work with it.



RAINY

WABI

Promises to help Unix workstations run Windows programs. But initial version is slow, and Microsoft won't support it.



PARTLY CLOUDY

DISTRIBUTED OBJECTS EVERYWHERE

Makes software simpler to create and use. NeXT technology gives it an edge, but rivals abound.



SUNNY

COMMON OPEN SYSTEM ENVIRONMENT

This united front of five leading Unix suppliers could present real competition for Microsoft's Windows NT.



CLOUDY

FIRSTPERSON

An operating system for consumer devices, such as hand-held computers. Sun has no experience in the consumer market.

SOURCE: BUSINESS WEEK

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RespiGam promises to prevent a virus that kills 4,500 infants a year, but the FDA panel called the testing errors "basic"

SUDDENLY, MEDIMMUNE ISN'T FEELING SO HOT

It's back to square one on a key drug—and back to reality for investors

Until recently, MedImmune Inc., a tiny Gaithersburg (Md.) biotechnology company, was expecting a banner year. On Nov. 9, it announced a \$30 million investment from pharmaceutical giant American Cyanamid Co. The news got even better for MedImmune 9 days later, when the *New England Journal of Medicine* published results of a clinical test of MedImmune's drug, RespiGam. Developed to prevent an upper-respiratory virus that hospitalizes 91,000 infants annually and kills 4,500 of them, "the product works," proclaimed the prestigious journal. Analysts put out a flurry of buy recommendations, and the stock shot up 15%, to 31¼.

Then, reality hit with a vengeance. On Dec. 2, a Food & Drug Administration advisory panel declared that the tests had failed to prove the safety and effectiveness of RespiGam. The medical experts claimed researchers had made basic mistakes and voted 11-0 to send the drug back to the clinical drawing board. A stunned market quickly knocked the stock price down to 16. By Dec. 8, it had slid to 13½.

WARNING SIGNS. The MedImmune fiasco should remind investors that putting money into biotech startups is a crapshoot, even with the recommendation of top analysts, distinguished journals, and government researchers. The company won't comment on the decision, and the FDA won't go into specifics. But in retro-

spect, analysts say, there were some warning signs that the clinical trials on the drug weren't going well. The National Institute of Allergy & Infectious Diseases helped design the tests. The problems developed, the FDA says, when researchers under contract to the NIAID didn't stick to the original design.

Exactly who is at fault isn't clear. But FDA officials say they began raising questions soon after Massachusetts Public Health Biologic Laboratories applied in February for approval to sell the drug. The state lab developed RespiGam but had licensed it to MedImmune in 1989. A five-member FDA investigative team even dispatched auditors to the clinical sites—not a common procedure. "We were having ongoing conversations about the data and the review with the company," says Monica Revelle, an FDA spokeswoman. "They certainly knew we were looking at it, and auditing it."

In July, the FDA requested additional information from the company. But, says Dr. Bennett Kaufman, senior staff fellow at the FDA's Laboratory of Plasma Derivatives, the response failed to cover all the points raised.

In the end, the advisory panel found

two fatal flaws: Investors had failed to assign babies to study groups properly and then failed to follow up properly on the ones who dropped out of the study. For example, a nurse in Denver responsible for recruiting patients violated the terms of a "blind" study, in that she knew which babies would go into a control group and which ones into the group that received RespiGam.

"GRIEVOUS ERRORS." "It's just not proper technique," says Richard B. Johnston, a member of the drug's advisory panel and medical director at the March of Dimes Birth Defects Foundation. Paul Meier, another member of the panel and a Columbia University statistician, adds that the clinical errors in the MedImmune tests were "absolutely basic" and completely biased the study: "They committed some grievous errors in the beginning, and they just couldn't recover."

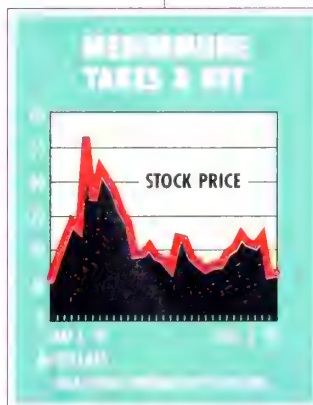
RespiGam could yet win approval, though conducting new clinical trials could take up to three years. American Cyanamid says it has no plans to get out of its deal, and MedImmune says a statement that it plans to "continue clinical studies." It may be worth trying again. The drug could eventually capture a market of \$200 million to \$300 million a year, analysts say.

Given the complexity of the drug approval process, any small company could

have gotten into the market. But that MedImmune did, analysts say. But they also blame the company for not keeping the market apprised of the FDA's qualms. And they contend that MedImmune should have spotted errors in the trials, realized the drug wouldn't pass muster, and then, with MedImmune officials declining to comment, it's hard to know for sure what else

could have done. But the company probably has staying power: Despite a loss of \$10.7 million on product sales of \$10 million in the nine months ended Sept. 30, it had \$46 million in cash and securities on hand. Now, it's a matter of ensuring that the next go-round on RespiGam goes better than the first—and rebuilding investors' confidence.

By Mary Beth Regan in Bethesda, Md.



Something

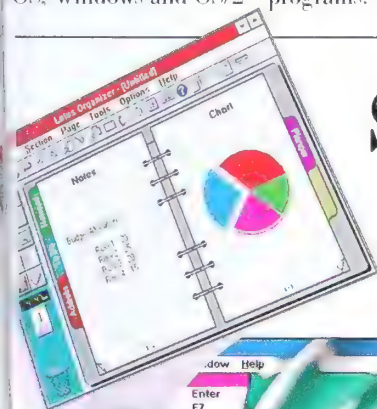
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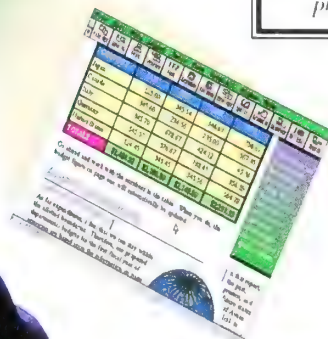
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THE LIMITED: ALL GROWN UP WITH NOWHERE TO GO?

The clothing retailer is ailing, and CEO Leslie Wexner seems stymied



Leslie H. Wexner, founder and CEO of The Limited Inc., is having trouble with velvet and animal skins.

At the Limited store on New York City's Madison Avenue, racks of trendy ankle-length velvet dresses, bell-bottom pants, and clingy leggings hang untouched by middle-aged women roaming the aisles. Shoppers don't go near the expensive leather and shearling jackets, either. Instead, they rifle through discounted mock turtlenecks and oversize sweaters. Even so, sales are slow.

For the past two years, Wexner has been promising his investors a turnaround at two of his largest divisions, the flagship Limited Stores chain and Lerner New York. It hasn't happened. On Dec. 1, The Limited announced that companywide sales at stores open a year or more dropped 7% in November and that earnings for 1993 would be 4% to 12% off 1992 results. Sales at the Limited Stores were especially poor, falling about 25%. At Lerner New York, sales dropped by about 9%. Meanwhile, department store giants J. C. Penney and Sears Merchandise Group enjoyed hefty gains (table).

Limited investors are getting impatient. The day after The Limited an-

nounced its results, the stock dropped 3¼, to 18¼. "The November numbers struck me in the absolute magnitude of their decline," says Janet Mangano, a retail analyst at Burnham Securities Inc. "I've been cutting my earnings estimates all year."

What's Wexner's problem? In part, analysts and investors believe, he's just not good at running a mature business—which The Limited, now situated in nearly every first-rate shopping mall in the nation, has become. Wexner also may have underestimated his competitors, particularly the chains that strug-

gled during the 1980s. "The Limited competition now from stores like Sears and Penney's that were in decline are right on the money now with a combination of fashion and value," says Thomas Buynak, a senior investment officer at Society Corp., which has so big chunk of the 3 million Limited shares it held in September.

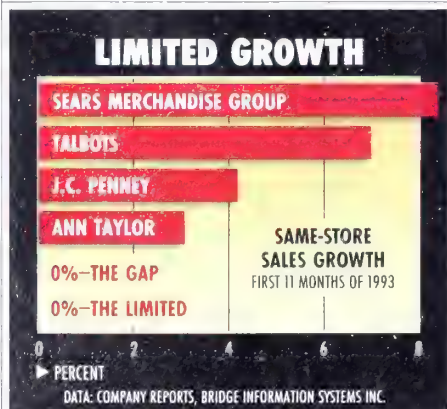
Investors would be happier if the company's other large divisions were doing much better. They aren't. At the \$1.1 billion Lane Bryant chain, which specializes in clothes for large women, same-store sales fell by about 5%. Most disappointing of all were the dismal results reported by Express, the \$1.6 billion chain that, until recently, had been The Limited's cash cow. In November, same-store sales fell by roughly 11%. Limited's much smaller divisions—Structure, Limited Too, Bath & Body Works, and Abercrombie & Fitch—all reported strong gains in November, but those units make up less than 25% of the company's \$7 billion sales.

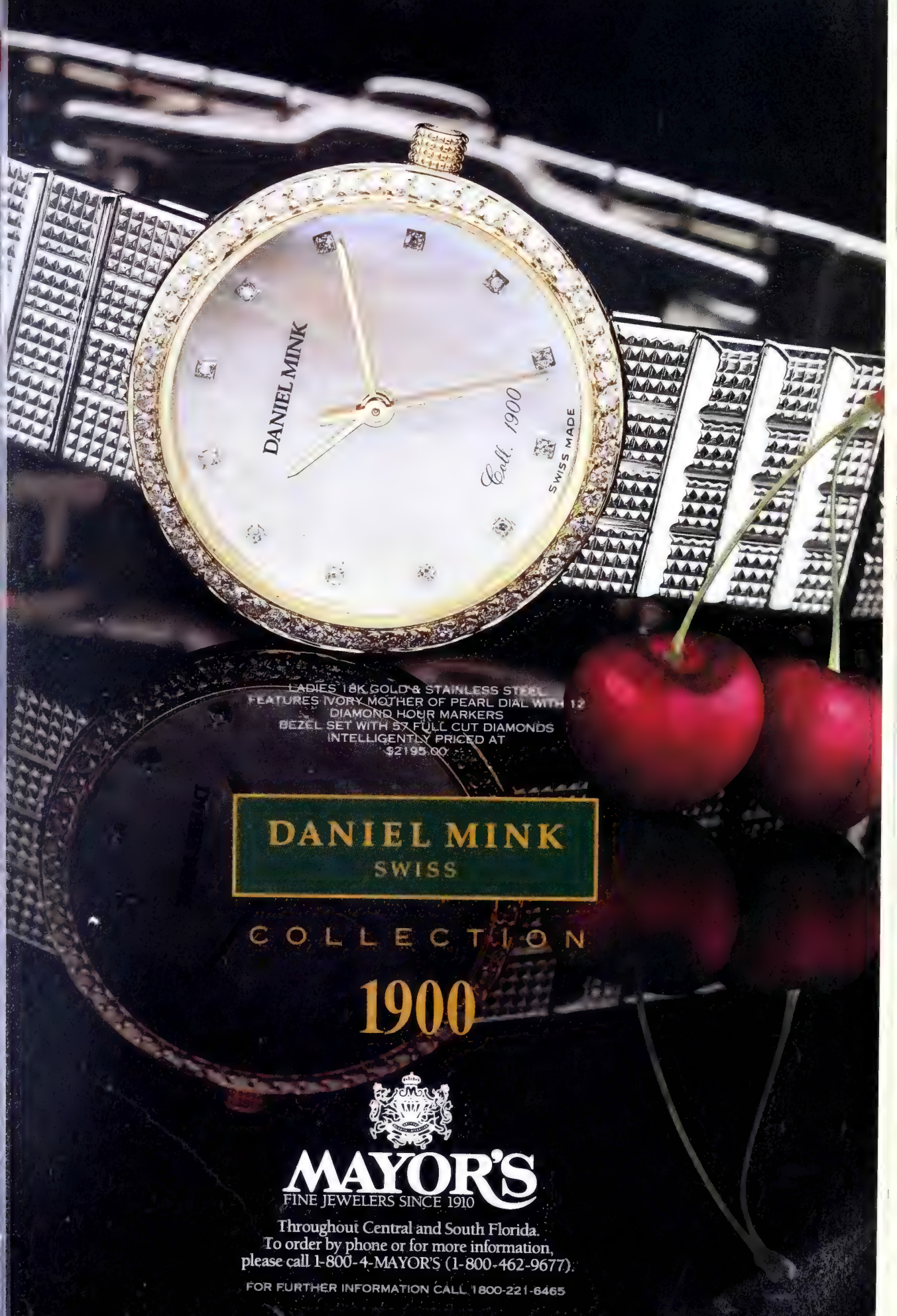
Critics say Wexner was more skilled at managing The Limited's stunning growth through the 1980s. Says Robert Becker, an analyst at Waddell & Pincus Inc., another big Limited investor, "Wexner has always had the ability to grow small businesses from startup to 50 stores to several hundred stores. The profitability of these larger divisions eventually declines as their best merchandising ideas get knocked off. Wexner has acknowledged that he enjoys building new ventures most, though he declined to be interviewed for this article.

FASHION FLOPS. The other big problem at The Limited isn't necessarily Wexner's fault. Simply put, the clothes that have graced Seventh Avenue's windows recently don't cut it in the real world. "Those long lengths were a disaster, and the sheer, peekaboo look was a real turnoff," says Alan Millstein, a New York apparel consultant. "That hurt stores like Limited and Express, which try to be on the cutting edge of fashion."

But the fashion flops are ephemeral. Investors are more concerned that Wexner still hasn't articulated his plan for turning around his four largest divisions. Waddell & Reed's Becker believes The Limited will eventually spin off its interest in the smaller chains. Wexner won't say what his plans are. But in May, he expressed his frustration: "I keep raising hell with myself at meetings. The environment isn't terrific. We're still not doing as well as we should." Seven months later, The Limited is doing worse.

By Laura Zinn in New York





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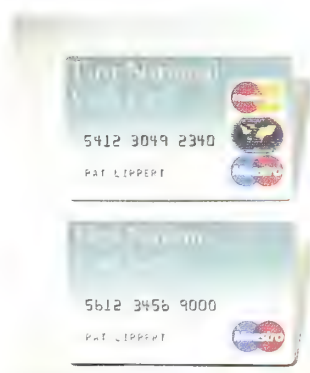
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HOLLYWOOD

HOW FOX OUTFOXED ITSELF

It added programs to bag more viewers—and lowered ratings

Making the right choice is never easy for Herman, the lead character on the Fox network's poorly rated show *Herman's Head*. Characters portraying the good, bad, and indecisive qualities inside his brain line up on different sides of an issue.

That was probably a pretty fair description of the scene at Fox Broadcasting Co.'s Century City (Calif.) headquarters earlier this year as top executives debated whether the seven-year-old TV network should expand programming beyond its current five-night-per-week lineup. Should Fox risk destroying its franchise with young viewers with its attempts to attract older ones? Would two added nights, aimed at grabbing more advertising, unduly tax its bare-bones production staff?

Six months after Fox began offering programs every night of the week, it looks as if the cautionary side of the Fox management brain should have won out. Nielsen Media Research ratings from the November sweeps period show

a network in decline: Some 9% fewer households watched Rupert Murdoch's channel during prime time, and it lost some of its luster among 18- to 49-year-old viewers. Worse, 8 of Fox's 10 returning shows from last season showed a ratings drop, including its two longest-running hits, *Married... with Children* and *The Simpsons*.

OLDER VIEWERS. No one at Fox is sounding alarms yet. It recovered from a similar slow period in 1990, also when it added new nights of programming. Fox executives are quick to point out that, excluding its new Monday- and Tuesday-night offerings, the network managed roughly the same numbers as last year. On Wednesday nights, they note, Fox is formidable, with *Beverly Hills 90210* and *Melrose Place*. "Sure there are

some things we need to do better, and we intend to do them," says Sandy Grushow, president of Fox Entertainment Group. "But we set out to maintain our base on Wednesday through Sunday, and we think we accomplished that."

Nonetheless, Fox's hold on its core audience is weakening. *Married... with Children* has lost 15% of its 18- to 49-year-old viewers so far this year, *In Living Color*'s share of that audience is off 38%, and *America's Most Wanted*, 43%.

Meanwhile, Fox is trying to widen its

MELROSE PLACE IS STILL DOING WELL, BUT FOX'S YOUNGER VIEWERS ARE DESERTING MANY OF ITS OTHER SHOWS



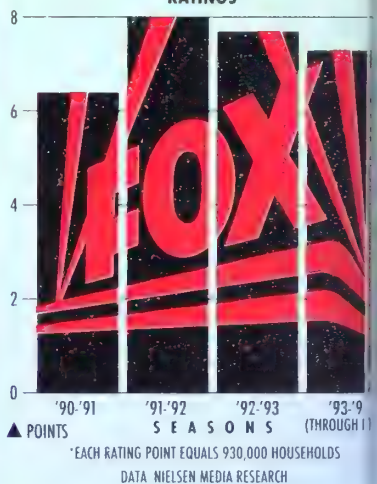
cable TV and video games, and advertisers remain skittish about shows that don't appeal to them. "There are just some advertisers that refuse to put 15 seconds of commercials anywhere near *In Living Color*" because of its raunchy tone, says Betsy Frank, Saatchi & Saatchi's director of TV information and new media.

MOVING AIM. Fox's mistake has been how it has gone after a broader audience, says David Poltrack, CBS's senior vice-president of research and planning. Instead of picking a night where audiences tend to be older, such as Friday, Fox sprinkled shows aimed at older viewers throughout its schedule, veering several nights.

There have been other mistakes, too. Chevy Chase, for one. Monday's *News* night has been uneven at best. And Tuesday's offerings, *Roc* and *America's Most Wanted*, have trailed ABC's powerhouse *Roseanne*, *Coach*, and *21*.

A SLUMP AT THE FOURTH NETWORK

RATINGS*



audience by attracting older viewers. It scrapped its Friday night schedule—killing *Sightings*, moving *America's Most Wanted* to Tuesday nights, and replacing them with *Brisco County, Jr.*, and *The X-Files*. As a result, Friday's ratings have declined marginally, but the average age of viewers has increased, to 39 from 36 a year ago, the network says. Overall, Fox's average viewer is 30, up from 28 just a year ago.

There's nothing unsound about targeting older viewers. Indeed, two new planned networks—one from Warner Brothers Inc. expected to air in mid-1994 and another from Paramount Communications Inc. and Chris-Craft Industries Inc. due to launch in 1995—won't hesitate to go after that market. That's because younger viewers are defecting to

House by huge margins. Fox hasn't had modest success with such new offerings as *Living Single* and *Sinbad*. But its low-overhead production team is now pressed to come up with replacements for such flops as *Daddy Dearest*.

Still, Fox's financials aren't halting despite the programming problem. The network has won enough new advertisers to increase operating earnings to \$100 million this year, from \$75 million in 1992, says Oppenheimer & Co. analyst Jessica Reif—although that's less than the \$100 million she figured Fox would earn when it announced its seven-night schedule. Of course, back then, even Fox was listening to the optimistic side of its own brain.

By Ronald Grover in Los Angeles and Mark Landler in New York

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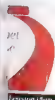
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EDITED BY THANE PETERSON

CLOSING BELL



HOW THREE HOT IPOs HAVE FARED

Is the initial public offerings market cooling off? Not yet, if the reception accorded Pactel Corp., a wireless communications spin-off from Pacific Telesis, is any indication. Issued on Dec. 6, Pactel Corp. climbed to \$25.50



in its first day of trading, 11% above its \$23 offering price. But is it a buy? Maybe not: Other recent IPOs, including Barnes & Noble, Boston Chicken, and Vermont Teddy Bear, all soared during their first day on the market, only to languish later.

DATA: BRIDGE INFORMATION SYSTEMS INC.

MORE LOANS FOR THE POOR?

Bankers may soon be out of excuses for not making loans to poor people. On Dec. 8, federal regulators proposed streamlining a key banking law, the Community Reinvestment Act of 1977, to clarify banks' obligations. Banks will have two options for taking the guesswork out of the law. They could draft their own plan for lending, which regulators would have to approve. Or they could show that their market share in all neighborhoods is roughly the same. Comptroller of the Currency Eugene Ludwig predicts the proposed reforms "will channel billions of dollars of new credit into America's distressed communities."

ARASKOG KEEPS ITT AIRBORNE

Can Rand Araskog keep ITT's stock price moving up? In an effort to do just that, Araskog is spinning off ITT's \$965 million forest-products unit to shareholders as part of an effort to shed its volatile and less profitable businesses. Announced Dec. 8, the spin-off of ITT Rayonier is expected to help boost ITT's return on equity, which CEO Araskog has vowed to raise to 16% or 17% by 1995, from about 12% now. So far so good. ITT's stock is up 30% in a year and rose 2½ points, to 91½, on the news.

WORDPERFECT THINKS WORDPUBLIC

Software giant WordPerfect is making management changes that may be a prelude to going public. The company was set to announce on Dec. 9 that President and CEO Alan Ashton would be named co-chairman along with co-founder Bruce Bastian. Replacing Ashton would be Senior Vice-President Ad Rietveld, former manager of the company's European operations. Wall Street had expected the developer of the popular WordPerfect software program to make an initial public offering in 1993.

HEADLINER

UPJOHN'S MAN IN THE HOT SEAT

You can't say John Zabriskie lackschutzpah. The 54-year-old Merck executive vice-president is tackling what may be the drug industry's toughest job: resuscitating Upjohn. When Zabriskie becomes Upjohn chairman and CEO on Jan. 3, replacing Theodore Cooper, who died of cancer in April, he'll inherit a tangle of thorny problems.

Upjohn's best-selling products, such as the antianxiety drug Xanax, are losing their patent protection, opening them up to cut-rate competition. That will slash earnings at the Kalamazoo (Mich.) company by more than 10% next year, to \$487 million on flat sales of

\$3.5 billion, predicts M. Sweig, an analyst with Laburg Thalmann. And the company's most promising product, a stroke and head injury drug, is a year or more from introduction.



Those who know him say Zabriskie, who had been considered a contender to run Merck one day, has what it takes to do a cost-slashing job. Upjohn needs. Zabriskie also has had experience in everything from research to manufacturing. "He's been working with new products all his career," says a former Merck colleague. For Upjohn, that's just what the doctor ordered.

By David Wood

WHO'S PLAYING MY SONG?

In a little-noticed suit believed to be the first class action challenging new interactive services, New York-based Frank Music went to court against CompuServe on Nov. 29 for copyright infringement. Arguing on behalf of itself and 140 other

music publishers, Frank Music alleged that the on-line computer network has reproduced and distributed over 500 copyrighted musical compositions without paying owners. CompuServe's electronic bulletin board system allows subscribers to download music to PCs from data bases supplied by independent contractors. That means CompuServe is the responsible party, say its general counsel. The company is trying to negotiate a compromise that will satisfy the publishers and the third-party software providers.

PHOTO FINISH

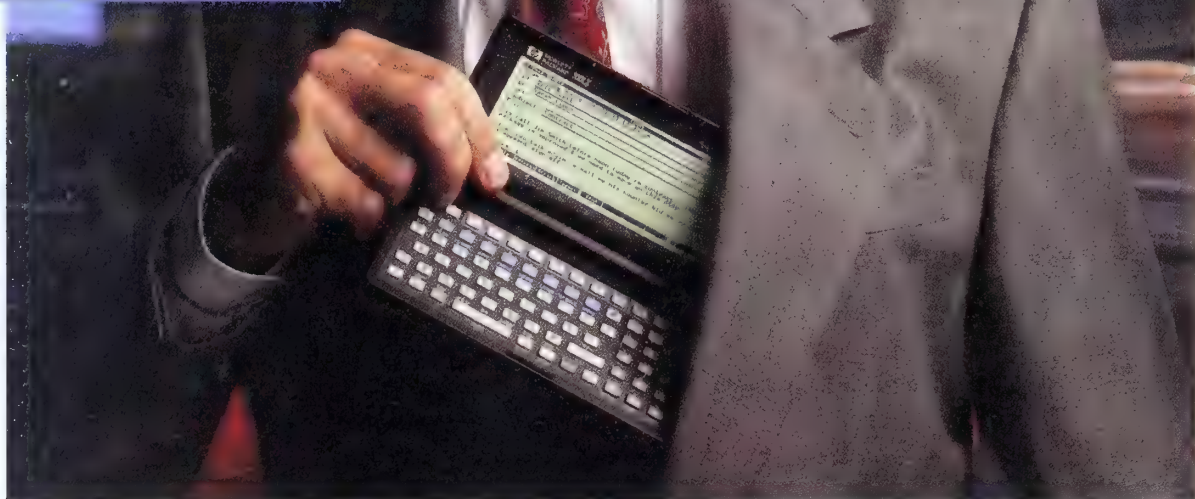


CORRECTABLE VISION: SHUTTLE ENDEAVOUR ASTRONAUTS BELIEVE THE REPAIR JOB HAS FIXED THE HUBBLE TELESCOPE'S BLURRY OUTLOOK

ET CETERA . . .

- A Texas county gave Able financial help despite the company's benefits for gays.
- The United Mine Workers won a new lease on life, winning a seven-month coal strike.
- RJR Nabisco said it will pay 6,000 jobs and take a \$445 million fourth-quarter charge.
- Mellon Bank is swapping \$1.7 billion in stock for mutual-funds giant Dreyfus.

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SO FAR, THE HEALTH-CARE NUMBERS ARE CRUNCHING CLINTON

President Clinton asserts that his health-care plan can extend coverage to 37 million Americans without a major tax increase—and with change left over to reduce the deficit. But he has made few converts to his view, and criticism about the Health Security Act's financing remains for political stumbling block.

The first detailed private analyses of the Clinton plan will do little to lower that hurdle. Wyatt Co., a benefits consultant, and Lewin-VHI Inc., a health-care consultant, independently concluded that the White House lowballed by 15% the premiums that health insurers would have to charge to provide the benefits guaranteed by Clinton's plan (chart). In the skeptical view of Wyatt and benefits experts, that mistake and other assumptions would increase the deficit by \$60 billion if the new health system were in place next year. Health economists at Lewin-VHI are less pessimistic but still conclude that in six years, Clinton's plan will fall short by \$11 billion, wiping out more than half the deficit reduction claimed for the bill.

YELLOW ZONE. The news isn't completely good for the Administration. In its study, released on Dec. 8, Lewin-VHI concludes that Clinton's plan would still cut the deficit, although by \$25 billion instead of \$58 billion. "We've moved from red to yellow—but you haven't crossed over into red," says Lawrence Winick, CEO of the Fairfax (Va.) consulting firm. The reason: Clinton's aides tucked a \$45 billion "cushion" into the plan to cover cost overruns. There's good news for employers, too. Lewin-VHI calculates that consumers can expect to pay more for capita insurance and out-of-pocket medical costs to fall an average of \$184 a year, with only smokers, snuff dippers, and tobacco chewers facing new taxes.

The Lewin-VHI study has plenty of potential to make trouble for the White House. It says employers that now offer health insurance will be big winners under its plan. But the study

finds that higher premiums and the requirement to cover part-timers and others who now don't get benefits will cost these companies \$24.5 billion in the first two years of reform. They won't begin to recover those costs until lower medical inflation starts producing savings in 1998. And some individuals may be in for an unpleasant surprise: one in four households would have to pay an extra \$500 or more a year, in many cases because they would be required to buy heavier benefits.

Lewin-VHI gives the White House the benefit of the doubt on some assumptions. The firm accepts Clinton's claim of \$189 billion in Medicare and Medicaid savings even though few on Capitol Hill expect all those cuts to materialize. It also credits the Administration with \$42 billion in savings from hitting its ambitious targets for slowing medical inflation. And Lewin-VHI assumes \$15 billion in net revenue from a 1% levy on the payrolls of large employers that don't join Clinton's regional cooperatives. But employer groups say few companies will take that prohibitively expensive option.

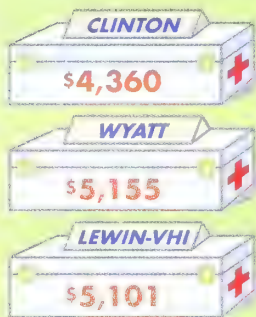
Wyatt's study cuts Clinton less slack. Higher-than-expected premiums, the firm calculates, will add \$13.7 billion to the annual cost of subsidizing care for the poor. It also says the government's offer to pay health premiums for early retirees will draw 8.8 million eager recipients—not 4.5 million, as the plan figures. That adds \$9.8 billion more a year to the plan's cost, Wyatt projects, and helps sink Clinton in a sea of red ink.

Of course, the analysis that counts is the scorecard being prepared by the Congressional Budget Office. But the CBO, whose numbers won't be out until January, is lying low. In the meantime, the Wyatt and Lewin-VHI studies will provide new ammunition for critics—and a new challenge for a President struggling to keep some momentum behind his health-care plan.

By Mike McNamee

HEALTH COSTS: WHO'S RIGHT?

ESTIMATED 1994 PREMIUM FOR FAMILY COVERAGE



DATA: THE WHITE HOUSE, WYATT CO., LEWIN-VHI INC.

REAL WRAPUP

PHYTES

The big crop of first-term House members is turning out to be an impasse. Two House Republican freshmen, Michael Huffington of California and Rod Grams of Minnesota, have announced plans to run for the Senate next year. On the Democratic side, Sam Erismuth of Arizona is close to jumping into the race to succeed retiring Democratic Senator Dennis DeConcini, while Virginia Democrats are urging Representative Leslie L. Byrne to challenge scandal-tainted Democratic Senator Les S. Robb. Why the hurry? The freshmen, especially the Republicans, are facing up to a disillusioning reality:

A backbencher has little power. And many members of the reform-minded class of '92 have learned just how resistant to change Washington institutions really are.

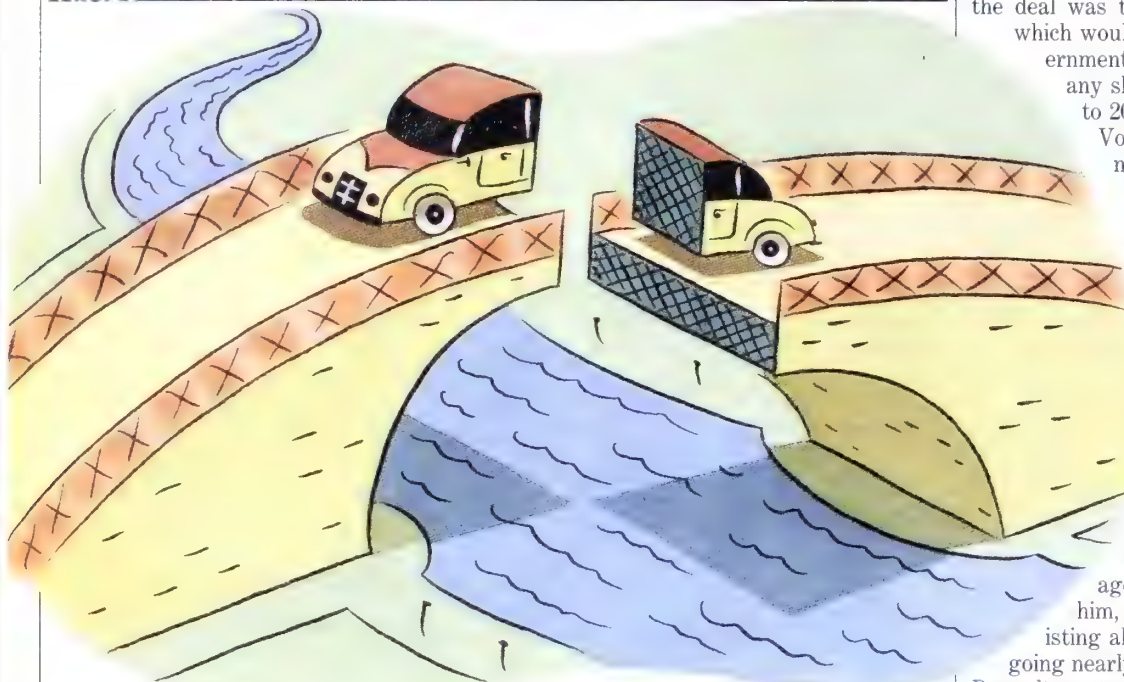
ANTITRUST

The Justice Dept. is indicating that it does intend to bring a civil case charging Microsoft Corp. with monopolization of the software industry, an action the feds have pondered for more than a year. Attorney General Janet Reno has hired Samuel R. Miller, an antitrust specialist in the San Francisco firm of Morrison & Foerster, to work as a senior litigator on Microsoft and other high-profile cases.

THE FED

Administration officials are chuckling over what they view as a transparent effort by Federal Reserve Chairman Alan Greenspan to avoid the heat for a politically unpopular Fed stand. The central bank opposes a Clinton effort to consolidate bank supervision, but Greenspan is remaining publicly mum on the issue. Instead, he sent Vice-Chairman David W. Mullins Jr. out to blast the plan. Clintonites speculate that Mullins, who stands virtually no chance of staying on when his term ends in 1995, has nothing to lose. But while Greenspan will likely be replaced in 1996, he dreams of reappointment.

EUROPE



WHY VOLVO KISSED RENAULT GOODBYE

The inside story of the revolt that killed the deal

It took Volvo Chairman Pehr G. Gyllenhammar and Renault Director General Louis Schweitzer three years to perfect a plan merging the two auto companies into a \$40 billion juggernaut. It took less than three months for their dream deal to collapse.

Yet the aftershocks of that deal will be felt for months, if not years. Mutual recriminations have torn apart Sweden's closely knit business community. Worse, the details of this juicy tale suggest how fiendishly hard it is to effect a merger between two of Europe's nameplate companies. That's disheartening news for Europeans who think such combines are crucial for the continent's competitiveness. "This has been an object lesson for Europe," says DRI/McGraw-Hill analyst John K. Lawson. "Anybody considering a trans-European merger should think long and hard about whose national pride and economic interests could be hurt."

What a contrast from the exuberance of Sept. 6, the day Gyllenhammar and Schweitzer triumphantly announced a plan that, publicly at least, seemed a model for

the new, borderless Europe. Yet Lars-Erik Forsg rdh, managing director of the Swedish Shareholders Assn., always had his doubts. He had clashed often with Gyllenhammar, an authoritarian manager who for 22 years had devised many ambitious, but not always profitable, schemes for Volvo. Forsg rdh's group, which represents individuals who together hold only 10% of Volvo stock, had scored several victories in these skirmishes, yet Gyllenhammar kept his grip on Volvo. This time, though, Forsg rdh's protests were to be Gyllenhammar's undoing.

FINAL STRAW. It started on Oct. 6, when Forsg rdh registered a lone note of dissent against the merger. His group believed Gyllenhammar's plan would depress Volvo shares. The most egregious part of

"We gave the French all our ideas, all our plans, and we got nothing in return"

the deal was the so-called golden share, which would have let the French government limit the voting rights of any shareholder, Volvo included, to 20%. The group also claimed Volvo failed to document its need for a merger over existing strategic alliances with Renault. The straw was the lack of any guarantee that Renault would be privatized, because Volvo then could not share any gains. "From a shareholder's point of view, I couldn't see the value of a worse arrangement," says Forsg rdh. Forsg rdh didn't know then that many Volvo managers secretly agreed with him, especially since Volvo's existing alliance with Renault was going nearly as smoothly as Volvo's.

Renault wanted the world to believe. Volvo managers, reluctant to speak openly, started leaking confidential information in the hope of destroying the merger. Gradually Forsg rdh and other institutional investors began to hear from Volvo executives about numerous points of friction, especially in research and development. In the truck division, "it was an impenetrable mess," says one source. "We gave the French all our ideas, all our plans, and we got nothing in return."

Things were just as serious on the other side, where engineers have been working on a common platform that both Volvo and Renault will use for their next-generation executive car. A source says the two couldn't even agree on which way the engine would face: Renault designers wanted to shut out Volvo workers, and Volvo managers wanted to speak French to one another whenever possible. Renault says the alliance has had "a lot of results. For these results, some people have worked well together." A Volvo spokesman admits there were problems but wouldn't elaborate further.

Opposition began to snowball when word spread that three former top executives were against the deal, including Henrik Frisinger, Volvo's CEO from 1979 to 1987. Says one Volvo investment adviser, "We didn't realize Mr. Gyllenhammar had so many personal enemies."

Just as investors were beginning to be railroaded, Volvo issued a second prospectus in which projected savings from the merger rose from \$4.8 billion to \$7 billion. But Volvo never said where the savings would come from. "The savings figure was counterproductive. There was

new information on which to base it, except the need to make the deal look better," says a source close to the company. The company also claimed that Renault and Volvo together would achieve margins of 10% even though neither one has had margins that high in the past five years. Despite the opposition, Gyllenhammar and Schweitzer still expected victory. To make the deal, the French government decided to privatize Renault within a year and not abuse its voting power to limit Volvo's influence. It also flew major shareholders to Paris on Nov. 24 to meet with Schweitzer and hear success stories about the alliance.

When shareholders returned home, the local press carried leaks from Volvo managers on problems with the alliance. Investors felt misled. Says one: "If top managers have doubts about a big merger, it won't work. We felt it would fail before it got started." Investors went to Volvo's Chief Executive Soren Gyll, asking him to withdraw the proposal when the deal met on Dec. 7.

NY? One of the final blows came on Dec. 30, when an unnamed Volvo official released a monthly profit report that showed Volvo's earnings jumping sharply. In contrast, Renault's earnings nose-dived. With Gyllenhammar in the U.S., Volvo called 25 senior car and truck division managers to a hastily called meeting at his home. All but a handful told him the merger wouldn't work. The next day Gyll informed Gyllenhammar, who canceled the deal and resigned.

In an emotional Dec. 6 letter to the *Evening Post*, Gyllenhammar's wife, Christina, whose father was once Volvo chairman, accused Gyll of betraying her and to further his own personal ambition. "Your 'yes' has always been a 'no,'" wrote Gyll strongly denies that he led anyone into such mutiny.

While Swedes take sides in this bitter debate, Volvo's future remains uncertain. Both Volvo and Renault have said they will need capital injections totaling \$2 billion if the merger isn't consummated. Analysts say Volvo is likely to raise cash by selling off assets unrelated to cars and trucks, dismantling Gyllenhammar's 10-year-old diversification strategy. The question now is whether Volvo will try to salvage the Renault alliance. A bigger question is whether Volvo's success will be repeated every time European giants try to merge. It is a lesson for every European manager.

By Paula Dwyer in Stockholm

EUROPE

CHRISTMAS CAME A LITTLE EARLY FOR EUROPE'S EXPORTERS

The Buba's rate cut is pushing the dollar higher

Before he took the helm at Germany's Bundesbank in October, President Hans Tietmeyer vowed not to be held prisoner by financial markets clamoring for faster interest-rate cuts. But now it looks as if Tietmeyer is giving the market exactly what it wants. The Buba's quarter-point cut in money-market rates on Dec. 2 may be setting the stage for even bigger reductions in coming months. Cheaper German money will cheer such beleaguered allies as France, Spain, the Netherlands, Belgium, and Denmark, which quickly cut their own rates after the Buba's move.

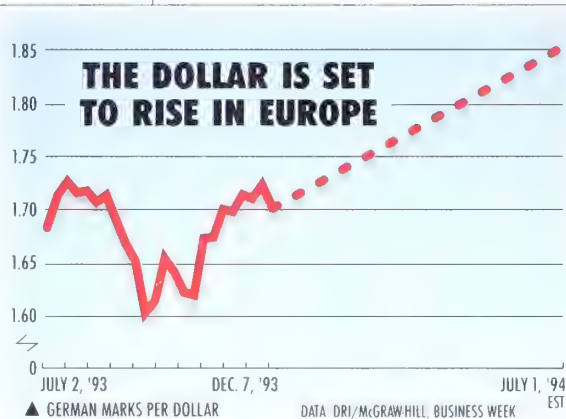
But the biggest impact may be on the dollar. Falling European rates will put upward pressure on the greenback. That's good news for Europe's hard-pressed exporters. "A rising dollar is always good," says Antoon Van Betgem, chief financial officer of Belgium's Barco Group, a maker of large-screen projectors. Barco aims to lower prices in the U.S., which accounts for 25% of its sales, and ace out American, Canadian, and Japanese rivals.

Despite a round of profit-taking early in December, a growing number of economists and traders believe the greenback is poised to climb as much as 12%, to at least 1.8 marks, next year (chart). And "more and more people are talking" about the dollar rising as high as 2 marks as the Buba turns up the money pump, says Merrill Lynch & Co. European strategist Michael Young.

VOLVO'S TURN. Already, the dollar has climbed from a postwar low of 1.48 marks in September, 1992, to around 1.7 now—a figure widely seen to be the greenback's new floor. And with the Buba likely to take an additional 200 basis points off interest rates next year, further gains are in the offing. Daimler-Benz Chairman Edzard Reuter, for one, expects the German auto maker to see profit margins widening in the U.S. Similarly, Jean-François Phelizon, CFO at France's Saint-Gobain, says he is already regaining market share as the rising dollar squeezes American exporters of paper products.

Gains for European exporters have

been even more pronounced a short distance from the mark zone. Italian appliance maker Candy Elettrodomestici has used the weak lira to boost sales within the European Community by 17% this year, and to lift them by a stunning 35% outside of Europe. And then there's Volvo. Riding the back of a 38% krona devaluation against the dollar a year ago, the Swedish carmaker expects to sell 70,000 autos in the U.S. this year, up from 67,900 in 1992, and beat Germa-



ny's Volkswagen for the first time in five years.

U.S. companies such as Microsoft Corp., however, aren't happy. Cutthroat global competition means it hasn't been able to raise prices to compensate for a stronger dollar. The U.S. software giant estimates the higher greenback cut its revenues about 5%, or \$40 million, in the first fiscal quarter that ended Sept. 30.

Still, no one expects anything like a return to the superdollar years of yore. Indeed, a weak U.S. savings rate and a trade deficit soaring toward an estimated \$200 billion in 1994 may eventually cap the dollar's rise. Merrill's Young, for example, frets that the greenback might plunge back below current levels against the mark as early as next year's third quarter.

That would bring some relief to U.S. multinationals. But it also would leave hard-pressed overseas manufacturers toughing out a listless recovery without a dollar-led export boost. And, by the way, asking their hard-nosed central bankers for even easier money to get their currencies down again.

By Bill Javetski in Paris, with Larry Holyoke in Tokyo, Richard Brandt in San Francisco, and bureau reports



DELIVERED NEWS

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BRITAIN



GEORGE BULL MUST WHIP THE \$11 BILLION LONDON COMPANY INTO SHAPE

A GRAND DESIGN FOR GRAND MET

The conglomerate's new CEO wants to zero in on core brands

Give George J. Bull credit for a certain candor. The new chief of Britain's Grand Metropolitan PLC has a message to convey: "Grand Met is no longer a conglomerate. It is a highly focused, branded food and drinks business." Sounds like a typical big-think line from a chief executive. But here the candor comes in: "I don't expect anyone to believe me," Bull adds. "We'll just have to prove it."

British and American investors would love to see such proof. In its 31-year history, Grand Met's executives have demonstrated little interest in corporate strategy, preferring the thrill of buying and selling assets at a dizzying pace. Since 1987, Grand Met has bought spirits maker Heublein Inc. and food marketer Pillsbury Co. Over the same period, it sold the Intercontinental Hotels group, Britain's William Hill betting shops, and the Chef & Brewer pub chain.

Yet for all the getting and shedding, Grand Met shares have drifted down on the New York Stock Exchange from a high of 37 in 1992 to 27 or so today. Earnings for the \$11.3 billion company sank 31% in the year ended Sept. 30, after \$423 million in write-offs and other charges.

So it's encouraging to hear that Bull,

who took over on Dec. 1, actually wants to manage some brands. But the company's well-known assets are all over the lot, ranging from Burger King restaurants to Pearle Vision Centers to Giant vegetables (charts). Whipping these into some coherent whole will be plenty of management savvy.

At least the 57-year-old Bull knows what it is to be a marketer—unlike the financial experts who preceded him as CEO. In over three decades at International Distillers & Vintners Ltd., Bull played a key role in turning a start-up outfit into the world's largest spirits company. Not only did he support new brands as Baileys Original Cream Liqueur but he was closely involved in the Heublein acquisition, which snared Smirnoff, the No. 1 vodka.

STRONG SPIRITS. Along the way, Bull gained a reputation as a tough but inspiring manager who conducts himself with a military bearing acquired as an officer in Britain's elite Coldstream Guards. Tim Ambler, a research fellow at the London Business School and a former IDV executive, recalls how Bull acted when a severe business slump hit IDV's British division in the early 1990s. Bull, head of the unit, donned a World War II helmet and told his troops to stiffen their resolve. The pep talk helped—as did the layoffs and streamlining Bull then pulled off.

Bull has yet to articulate his grand design for Grand Met, although he does say the company will maintain or expand its \$1.3 billion marketing budget. A review shows that liquor remains the strongest spot, thanks to a stable of premium brands—and despite the loss of distribution rights for Absolut vodka in late 1994.

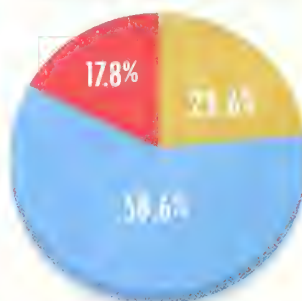
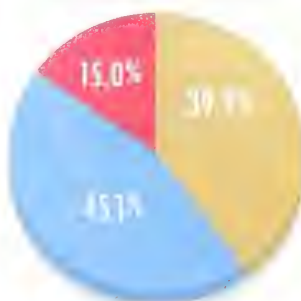
Yet many operations need help. Profits in Europe are down 32% as sales growth gets tougher to come by in its big recession-wracked markets. Bull has been looking for growth far afield. It has set up trading companies and bought up local brands in Asia, Latin America, and the former Soviet bloc.

In the U.S., cheaper private-label veggies are taking on Green Giant Co., the market leader in frozen vegetables. In September, the division took a \$96 million restructuring charge to shut four plants and lay off 600 workers. To avoid price wars, Green Giant is concentrating on such higher-margin products as Pasta Accents, pasta and vegetable combinations, pushing overseas.

GRAND MET'S BUSINESS MIX

TOTAL SALES* \$11.3 BILLION

OPERATING PROFITS \$1.4 BILLION



RETAILING BURGER KING, PEARLE VISION

LIQUOR J&B, SMIRNOFF, BAILEYS

FOOD PILLSBURY, GREEN GIANT, BROSSARD

*YEAR ENDED SEPT. 30, 1993, EXCLUDING DISCONTINUED BUSINESSES

DATA: COMPANY REPORTS

At Burger King Corp., franchisees complain that Grand Met has sacrificed line growth for short-term profits. The year ended Sept. 30, profits were 8%, to \$252 million. "Grand Met can e bows about how profitable Burger King has become, but what they did is the heart out of it," says one long- U.S. franchisee who complains of packs in field support. Indeed, while McDonald's Corp. and ndy's International Inc. posted U.S. et share gains in 1992, Burger

King's share slipped to 16.2% from 16.6%, according to market researcher Technomic Inc. Bull acknowledges these concerns but points out that Burger King opened 540 new outlets last year and is now pursuing a promising strategy to offer discount "value" meals.

Bull still has asset-logging to do. Losses at the Pearle Vision Centers are narrowing, but analysts believe that as soon as the eye-care chain is healthy, it will be sold. And Bull must keep cutting

back Grand Met's sizable \$4.2 billion debt. The sale of the Chef & Brewer pub chain for \$1.1 billion will help lower debt for fiscal 1994. But investors, leery of the company's shaky equity base, want more cuts. As he strives to convince the markets that Grand Met is a winner, George Bull should remember the motto of his old army outfit, the Coldstream Guards: There are no excuses.

By Julia Flynn in London, with Lois Therrien in Chicago and Gail DeGeorge in Miami.

ICO

FREE TRADE AND FREEDOM OF THE PRESS?

Mexico relaxes control of the media as it remakes the economy

Mexico City's newest daily newspaper is aptly named: *Reforma*. While many other papers are gating stories on the fraud-tainted 28 elections in Yucatán state to le pages, *Reforma* keeps blasting government with front-page articles ng the scandal a "political soap op- Much of Mexico's media is under government's thumb, but the \$50 on startup owned by Ale- ro Junco de la Vega, an pendent-minded Monter- publisher, is not afraid to k out.

at's good news. *Reforma* front-runner in forging a kind of journalism in ico. As free trade res the country's economy, icans are demanding a open flow of informa- It will be difficult to ve. Mexico's government it is implementing politi- reforms to make the coun- more democratic, but jour- ts from the tightly olled radio and TV sta- are still being hassled interviewing opposition rs. The government goes r on print journalists, y because only about 15% exicans—the political and mic elite—read newspapers and azines.

SED PALMS. For decades, the Mexi- media have had an unhealthy, some- incestuous relationship with the nment. Broadcasters have been to criticize official policies because and TV concessions are easily ed away. Underpaid reporters used cept cash-stuffed envelopes from nment agencies or political parties

to put a certain spin on news. Even to- day, the government inserts paid articles in many newspapers, forking over as much as \$30,000 for a bylined front-page story. In many cases, more than half of the ad revenue comes from the state. "They depend so much on the govern- ment that a small tightening of the screws is enough to influence coverage," says Rafael Rodríguez Castañeda, the



THE GOVERNMENT IS EASIER ON NEWSPAPERS THAN ON RADIO AND TV

managing editor of *Proceso* magazine.

But that may soon change. Increased cross-border investment under NAFTA could generate significant new sources of advertising in Mexico. *Reforma's* Sunday edition, for example, is packed with ads from stores in Texas. Financial independence will make editorial independence possible. "Economic reform in an authoritarian state like Mexico weak- ens the system and opens up opportuni-

ties for other sources of power," says Raymundo Riva Palacio, news editor of leading financial daily *El Financiero*.

Some of the Mexican media's new- found independence is due to govern- ment initiatives. A year ago, the Salinas Administration banned federal cash pay- ments to journalists and started charg- ing them for their expenses on presiden- tial trips. "The aim is to make the relationship between government and media more transparent," says Gabriel Guerra, deputy presidential press secre- tary. However, the practice of paying off reporters is still widespread at the local and state levels.

LONG FIGHT. Next year's presidential elections will offer a serious test of Mex- ico's media freedom. In September, not- ed commentator Miguel Angel Granados

Chapa lost his radio show after he aired an interview with opposition presidential candi- date Cuauhtémoc Cárdenas, who many believe was the real winner of the 1988 elec- tions. Granados says he was dropped because regulators threatened to cancel one of the radio network's seven con- cessions. "The government is extremely concerned over what radio audiences hear on the air, because that is where the ruling party gets most of its votes," he says.

Unleashing Mexico's long- subdued media will be a long process. Over two decades, Junco's Monterrey daily has editorialized against every- thing from the expropriation of farm lands to nationalizing banks. Those views netted him government harassment and some time in exile. But times are changing. "We've come a long way," marvels Junco. "Just a few years ago, I wouldn't have dreamed that we could start a new newspaper in Mexico City without being considered an enemy of the government." The question now is how well the country's authorities will deal with increased scrutiny from the press.

By Geri Smith in Mexico City



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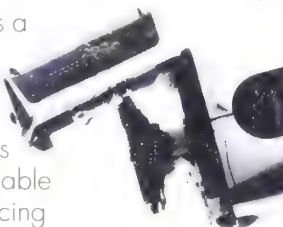
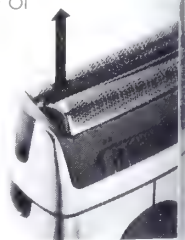
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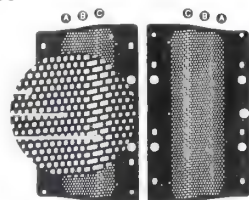
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GERMANY: WHY CHANCELLOR KOHL ISN'T HISTORY YET

With just 11 months to go before national elections next October, Helmut Kohl, the imposing 11-year German Chancellor, suddenly looks vulnerable. In a recent east German municipal election, his Christian Democratic Union (CDU) party placed a humiliating third. This was just the latest of several recent setbacks.

Inside the CDU, a nascent "Dump Kohl" movement is gathering steam. Party brass talk openly about scenarios for Kohl's departure. Some are privately saying that they would like to see the Chancellor step aside to make room for a fresh face. It's also much rumored that Kohl's Free Democratic Party allies will bring down the government by pulling out of the coalition. "Kohl's Power Ebbs Away—The End of an Era," says the cover of the latest *Der Spiegel* magazine, reflecting the general mood in Bonn.

BESIEGED CENTER. It's probably too soon, however, to say that the 63-year-old Kohl is history. Although his chief opponent, new Social Democratic Party (SPD) leader Rudolf Scharping, has a big lead in the popularity polls, in Germany's complex multiparty system that does not necessarily mean the SPD will win enough Bundestag seats to gain the Chancellor's office. And, despite all the CDU discontent, there are no obvious successors to Kohl in the party.

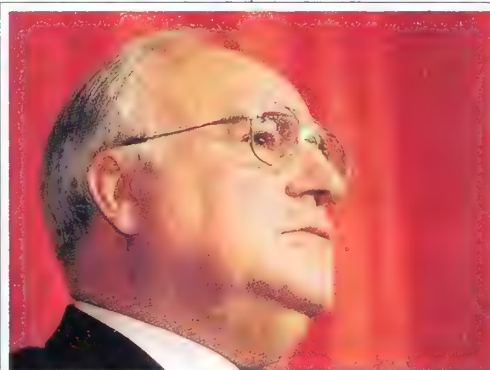
But German politics is certainly changing in disconcerting ways. With the economy stagnant and unemployment rising sharply, the center is weakening. Neo-Nazi parties are coming up on the right, while in eastern Germany, former Communists, known as the Party of Democratic Socialism (PDS), are taking votes away from the CDU.

The big risk now is that the marathon of 19 local, state, and national elections next year will usher in a long and debilitating period of political gridlock. The SPD needs only to win pow-

er in two more statehouses to have a two-thirds bloc majority in the Bundesrat upper house. That would mean could torpedo finance bills and constitutional amendments required, for example, to privatize the phone company.

Such paralysis is the last thing Germany needs at this point. Already, business, labor, and government are having a tough time reformulating the social contract that has contributed so much to the strong post-World War II economy.

But if current trends continue, Kohl's CDU and its partner, the FDP, might not win enough seats to form a coalition. That would probably force the CDU into a "grand



KOHL'S WANING POWER MAY BRING GRIDLOCK

coalition" with the other main parties. Kohl considers such a government hopelessly unwieldy and has vowed that he would not serve at the head of such a coalition.

COMEBACK KIND? Of course, Kohl could change in 11 months. Kohl's canny political ingenuity has written off before. The last attempt by rival party barons to oust him as CDU leader in 1989 flopped, and he easily won a third term as Chancellor in 1990, riding the wave of German reunification euphoria. But, says a corporate leader and Kohl confidant, "without unification, he would not have been out." This time, though, the

miracle is in sight. The mood in Kohl's office is more optimistic. Kohl "isn't listening to anybody anymore," gripes an aide.

Meanwhile, Kohl has mapped out a strategy of positioning himself as the best bet to cut unemployment, spark recovery, and restore competitiveness. The opposition parties are taking him into their hands by calling for more spending, financial reform, higher taxation. Kohl says what's needed is labor-market flexibility, a push for private investment, and changes in the welfare system to end the disincentive to work. It just means a strong enough message to ride to victory.

By John Templeman in Bonn

GLOBAL WRAPUP

MEXICAN POLITICS AS USUAL

Mexico's often promised move toward more democratic elections has again taken a detour. Just 10 days after the U.S. Congress approved the North American Free Trade Agreement, state elections in the Yucatán were marred by mysterious blackouts at polling places, vote-count discrepancies, and other irregularities. Opposition leaders asked for the results to be thrown out, but their request was turned down. The ruling Institutional Revolutionary Party (PRI) handily won the governorship and most other elected offices. Mexico's increasingly vocal political opposition says the Yucatán

elections cast doubt on the Salinas Administration's pledge to hold open, fair presidential elections in August, 1994.

WILL XEROX SHAKE RANK?

Analysts wonder whether Stamford (Conn.)-based Xerox Corp.'s recent announcement of a worldwide restructuring will rock Rank Organization PLC, Britain's largest leisure company. The companies are closely linked. Rank gets roughly half of its earnings from Rank Xerox Ltd., a \$4.4 billion joint venture. In recent weeks, Rank's CEO, Michael B. Gifford, has indicated that he was hoping for Xerox to buy out Rank's 49% stake in Rank Xerox. This greatly excited investors.

Rank's stake, which includes a holding in Fuji Xerox Co., is thought to be worth up to \$2.2 billion. Now, the doubt that a belt-tightening Xerox would go through with such a move.

ISRAELI-ARAB ENERGY SCHEMES

Despite slow progress in talks with the Palestinians, Israel's economic ties to the Arab states may grow. Israeli investor Joseph Maiman is involved in a promising scheme to build an oil refinery near Alexandria. Israelis are also trying to persuade Egypt to supply them with natural gas by pipeline and are commissioning a feasibility study on this and other natural gas options.



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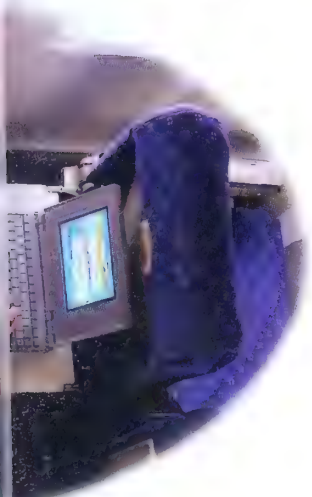
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YOUR FATHER'S WARTBURG: HIRES ARE CHOSEN FOR TEAMWORK ABILITY AND INTENSIVELY TRAINED FOR JUST-IN-TIME MANUFACTURE

GM'S GERMAN LESSONS

the Eisenach plant's lean production transfer to the U.S.?

Vearing uniform gray slacks and a white button-down shirt, Volker Keyser, 29, among the Corsa cars gliding down assembly line. An eastern German once installed heating systems, Keyser leads the eight-member tire-and-wheel team at the year-old Adam Opel in Eisenach, just inside the former East German border. Twelve weeks of training jolted him out of the passivity that plagued communist-era workers. He speaks up with new ideas and hesitates to stop the line if he senses something is wrong. It "was a change," Keyser says. "But now, I have confidence."

At Opel. Tucked in a valley beneath the Wartburg castle where Martin Luther translated the New Testament into German in 1521, the \$600 million Adam Opel plant is also revolutionizing the way people think. By adopting and

adapting lean manufacturing principles, the General Motors Corp. unit is plotting to beat the Japanese at their own game. Opel is turning to low-inventory, just-in-time parts delivery, flexible teams of workers, and *kaizen*, or continuous improvement. The plant's achievement isn't concocting new approaches but choosing the best of many proven ones. "They've packaged together the global best practices in the industry," says John Lawson, research director at DRI/McGraw-Hill in London. "The productivity levels will make competitors' mouths water." That's critical as Europe's auto market, with unit sales down 15.2% this year, wallows in a prolonged slump.

The remodeling won't stop with Europe. GM Chief Executive Jack Smith got hooked on lean concepts a decade ago, when he helped set up New United Motor Manufacturing Inc. (NUMMI), GM's California joint venture with Toyota Mo-

tor Corp. But headquarters in Detroit failed to build on these early insights. In fact, despite the success of its own Saturn unit, GM has fumbled the transfer of lean manufacturing into the heart of its operations. Many plants are still poorly laid out, carry excess inventories, and have large areas where just assembled cars must be repaired before they are shipped. Not about to miss a second chance, Smith, who headed GM Europe from 1986 to 1988, plans to use Eisenach as a model for revamping GM's auto manufacturing worldwide. "We've got to convert the rest of our plants to that type of operation," he declares.

"LEADERSHIP." That's one reason Thomas W. LaSorda, 39, the head of Opel Eisenach since it was a muddy field in 1990, has just returned to the U.S. as manufacturing manager for the Cadillac/Luxury Car unit. He'll oversee production of Cadillacs and some Buicks, Oldsmobiles, and Pontiacs at three of GM's most important plants. And Job One for him is to advance lean practices in a division that has made big gains in quality but is struggling to adopt a raft of new manufacturing techniques. "It's the leadership that makes it work," says Arvin F. Mueller, general manager of GM's North American operations technical center. "That's an art."

At Eisenach, it's more like a religion. In the late 1980s, as Opel was recovering from years of losses, Robert J. Eaton,

then GM Europe president, assigned four senior managers to rethink its manufacturing philosophy. They set up "model shops" within Opel factories to test teamwork and other methods, a step that quickly cut inventories by 60% to 80% and space requirements by 30% to 50%.

Eisenach provided an ideal way to expand the experiments to plant-size scale. By 1990, Opel had bought assets of the state-run auto maker that had assembled Wartburgs, East Germany's boxy version of an upscale car. Opel staffed its new factory from the defunct plant's pool of workers, hiring only those who, in an intensive interviewing process, seemed to demonstrate an ability to work in teams. Then, it gave them extensive training, using Lego blocks, for example, to illustrate the just-in-time process.

To manage the plant, then Opel President Louis Hughes, another NUMMI alumnus, recruited evangelists from GM's two main joint ventures with the Japanese—NUMMI and CAMI Automotive Inc., the Canadian GM-Suzuki Motor venture. "We're like missionaries, because this is something you have to believe in," says Eric R. Stevens, a former CAMI manager who replaced La Sorda at Eisenach.

TOUGH BENCHMARK. The emigrés set out to make their new factory's space, manpower, transport, and warehousing requirements about half those of Opel's other plants. Eisenach's 2,000 employees will build a car in under 20 hours when the plant hits its annual capacity of 150,000 units next year. GM's U.S. plants aren't anywhere near as efficient, and the average European plant took 36.2 hours in the late 1980s. Nissan Motor Co.'s Sunderland (England) assembly line, the region's benchmark, can build a Micra in 10.5 hours and a Primera in 12.5 hours. "Sunderland is a fairly scorching benchmark," says DRI's Lawson. But he adds that the companies include different tasks in their calculation of assembly time. The efficiency of the two plants is "very close," he says. Eisenach "shows GM can do it," declares auto specialist Daniel T. Jones of Cardiff Business School in Wales.

It also gives Opel, one of Europe's few profitable carmakers, a headstart for 1999, when import restraints on the Japanese will be lifted in Europe. Peter Enderle, Opel's manufacturing chief, expects to boost overall productivity 7% to 8% annually for the next few years by

bringing the division's other plants, which take about 25 hours to assemble a car, "close to Eisenach's level of lean-ness by 1996 or 1997." Two-thirds of Opel's 20,000 line workers now operate in teams. The carmaker's Bochum stamping plant near Bonn has cut steel-coil inventory, once up to 20,000 tons, to 600—enough for one shift's production.

A walk through the Eisenach plant reveals the same crisp efficiency that characterizes a Japanese factory. Lighted signboards indicate at a glance where parts are running low. The assembly line boasts clean, spacious aisles, with only two hours' worth of inventory on hand in small, blue boxes, their locations marked in bright yellow tape. With each worker empowered to stop the line

ogy, installing radiators and windshield by hand, for example, instead of with bots. In their overseas plants, the Japanese also use less automation. At Nissan's Sunderland factory, seats are positioned hydraulically but fastened by hand. By contrast, in its newest plant in Japan, conceived in the late 1980s (when manufacturers panicked over a looming labor shortage), robots install seats.

OVERLOAD? Another departure: Eisenach has just begun a five-day, 24-hour production to squeeze the maximum from costly new equipment. Toyota runs just two shifts to leave more time for maintenance. "It's a difference in philosophy," says Toyota's Mikio Kitano, the managing director overseeing production. "There are different ways to

have lean production."

One other dissimilarity involves logistics. At Toyota City, near Nagoya, Japan—the world's model for lean manufacturing—assembly lines for nearly 2 million cars a year are in a sprawling area that includes many suppliers' plants. Opel built Eisenach to gain a foothold in eastern Germany, but the facility is too small for most of its 400 suppliers to afford to be nearby. With parts coming from as far as Zaragoza, Spain, Eisenach needs intermediate

warehouses to ensure just-in-time deliveries. But then, at their new plant in southern Japan, even Toyota and Nissan do, too.

It won't be easy to retrofit Eisenach's lessons into existing European plants. At Opel's Bochum factory, built again on a hill, the trim line has only one entrance, preventing steady parts delivery in small lots. "It's a kind of nightmare," says logistics manager Wolfgang Voss. And retraining people who have built cars one way for 30 years, he says, is one of the most difficult challenges.

GM faces the same hurdles back home. After a decade of exposure to lean manufacturing techniques through its ventures with Japanese companies in North America, "GM shouldn't have to learn the lesson again" at Eisenach, says Cardiff's Jones. The difference this time is that as La Sorda and others try to bring lean manufacturing into GM plants, they'll have support from the top. "We've got a long way to go," concedes CEO Smith. But at least now, GM seems headed in the right direction.

By Karen Lowry Miller in Eisenach
with Kathleen Kerwin in Detroit

OPEL'S KEYS TO SUCCESS AT EISENACH: THE RIGHT PEOPLE AND PROCESSES

- ▶ Selectively chosen workers get 12 weeks of intensive training. The plant's 2,000 employees are organized into five-to-eight-member teams. Without restrictive work rules, each member can perform each of the team's tasks.
- ▶ Just-in-time parts delivery keeps just four to six hours' worth of parts in the plant and only two hours' worth of inventory along an uncluttered assembly line.
- ▶ Kaizen, the Japanese term for continuous improvement, is the rallying cry. Workers have designed parts boxes to tip forward as they empty, for example, to avoid unnecessary reaching.
- ▶ A bottom-up focus on quality aims for zero defects. Anyone who detects a problem can pull a yellow cord for help or a red cord to stop the line. Teams routinely audit their own performance, avoiding costly inspections at the end of the line.

DATA: BUSINESS WEEK

in the name of quality, there's no costly expanse of space at the end to repair mistakes.

Eisenach also has close links with key suppliers. Just 600 yards down the road, Lear Seating General Manager Horst Dieter Moritz, the eastern German who used to keep 90 days' worth of metal parts on hand when he was purchasing chief at the old Wartburg plant, is linked to Eisenach by a computer that signals its final assembly schedule 13 hours ahead of time. Four hours before a car is built, Lear makes the seats for it and trucks them to the line. "I couldn't have imagined this before," says Moritz.

Despite the similarities, Opel didn't copy the Japanese system wholesale. That's just as well: Much of what it rejected, the Japanese are rethinking. To keep down costs, Opel uses less technol-

Four hours before a car is built, Lear Seating assembles its seats and delivers them



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Source: Securities Data Company



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A COLLEGE SUPER BOWL INCHES CLOSER TO THE GOAL

Discontent and dollar signs make a postseason playoff more likely

Come New Year's, at least one college football team will be crying foul. That seems the surest bet of the holiday season, as the antiquated bowls-and-polls system once again leaves players, coaches, and fans clamoring for a better way to determine the national champion of the campus gridiron. The organizers of the Federal Express Orange Bowl are hyping their game between unbeaten Nebraska and once-beaten Florida State as the battle for No. 1. But what about undefeated West Virginia, which could deck the University of

Florida in the USF&G Sugar Bowl and be relegated to runner-up without getting a shot at the title? And if FSU beats Nebraska and Notre Dame knocks off Texas A&M in the Mobil Cotton Bowl, fans of the Fighting Irish are sure to claim the title, because their team beat FSU in November. For the third time in four years, a split decision in the polls is a distinct possibility.

One antidote to this confusion would be a playoff system culminating in a college Super Bowl. Besides deciding the national title on the field, such a tourna-

ment would infuse college football's season with a structured drama that lineup of minor bowls featuring rans lacks. "A playoff would make the games meaningful," says Charles Neinas, executive director of the College Football Assn., which represents two-thirds of the major schools.

For years, the colleges have argued that a playoff would sound the death knell for the bowls and increase time demands placed on student athletes. Now, the CFA and the National Collegiate Athletic Assn.'s President's Commission are considering playoff proposals that could be voted on by 106 Division I-A members—the top ball schools—in January, 1995.

Even opponents of a playoff system concede that financial considerations have given the debate new urgency. "Money's tight, and we have to look at all possible sources of new income," says University of California at Los Angeles Chancellor Charles E. Young, whose search group will present its recom-



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s to the NCAA's Presi-
Commission in March.
spite generating mil-
from football, more
half of all I-A athletic
ments ran deficits in
according to the NCAA,
blem sure to be exacer-
by recent court deci-
ordering the colleges
and more money on fe-
sports. Their appetites
ed by megabuck pro-
from Nike Inc. and
Disney Co., college offi-
believe that a 16-team
ey could generate as
as \$150 million, which
sure help alleviate the
runch.

THE TABLE." In his annu-
dress to the member-
January, 1993, NCAA
ative Director Richard D. Schultz
the weight of his office behind a
me playoff, which he predicted
fetch \$65 million. "Dick put [the
on the table, which made us have
with it," says UCLA's Young. The



UNDEFEATED WEST VIRGINIA HAS ONLY A SLIM SHOT AT THE TOP SPOT

idea lost a strong voice when Schultz
was forced to resign earlier this year.
His successor, former University of Ari-
zona Athletic Director Cedric Dempsey,
has vowed not to take sides. But Schultz
predicts: "Ultimately, the playoff issue

straight No.1 vs. No.2 matchup, the
system is flawed because it will leave at
least one team with a legitimate gripe.
Once-reticent bowl officials are now
cooperating with the CFA's playoff com-
mittee, whose plan will be unveiled next

will be decided on its finan-
cial merits."

With 18 bowl games now
fighting the National Foot-
ball League playoffs for
dates amid splintered rat-
ings, "there's a certain can-
nibalization taking place"
among the bowls, says
Bruce Skinner, former exec-
utive director of the Fiesta
Bowl. Any short-term solu-
tion is likely to include the
bowls, which will drop some
\$72 million into the colleges'
pockets this year.

Three years ago, the Cot-
ton, Fiesta, Orange, and
Sugar bowls formed a coal-
ition to produce better
matchups and reduce the
clamor for a playoff. But de-
spite creating a second

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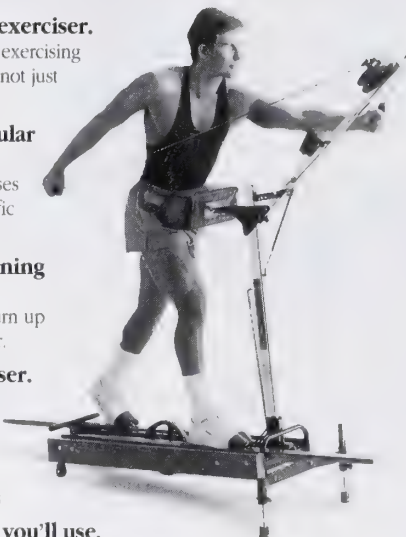
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Sports Business

May. "The bowls realize that the tion is just an intermediate step," the CFA's Neinas. With TV contracts ESPN and ABC expiring in 1995, the sees a playoff of its own as a way crease its value to television. One p sal calls for a 16-game tourney bu to a championship game the Satu before the Super Bowl. NFL off downplay any impact on their game such a scenario clearly could cut the big league's January monopoly compete for precious ad dollars.

THE DEFENSE. Replacing the bowls w 16-team playoff would give every tender a fair shot at the big prize would neutralize the "strength of s uler" debate that dominates so many troversial finishes. But such a plan would eliminate more than half o teams that now qualify for postse play—and likely extend the year

"Just because the fans war playoff] doesn't make it ri for our institutions," say the Pac-10 commissione

battle-weary few. "We have to rer ber that we're dealing with stud who shouldn't be asked to do r more," notes University of Notre I Executive Vice-President E. Wi Beauchamp.

Even if Neinas can produce a that his 64 teams will support or convention floor, the CFA faces a n roadblock. The members of the Big and Pacific-10, who enjoy a com \$13.5 million annual payoff from Rose Bowl and aren't members of CFA, refuse to consider participating playoff. "Just because the fans wa playoff] doesn't make it right for institutions," says Pac-10 Commissi Tom Hansen.

While CFA presidents come dow all sides of the playoff debate, mo their counterparts in the Pac-10 and 11-team Big Ten believe that ad an extra layer of games would be trary to their reform movement lead to greater commercialism. Not ing 21 of the game's most impor teams would hurt the playoff plan, t probably wouldn't sideline it. With NFL taking heat lately for the mono of the league, and with the big- playoff payoff luring cash-strapped stitutions of higher learning, a col Super Bowl looks more and r inevitable.

By Keith Dunnivant in At

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THE HORIZONTAL



WANTED: *Bureaucracy basher, willing to challenge convention, assume big risks, and rewrite the accepted rules of industrial order.*

It's a job description that says nothing about your skills in manufacturing, finance, or any other business discipline. And as seismic changes continue to rumble across the corporate landscape, it's the kind of want ad the 21st century corporation might write.

Skeptical? No matter where you work, it's likely that your company has been, in today's vernacular, "downsized" and "delayed." It has chopped out layers of management and supposedly empowered employees with greater responsibility. But you're still bumping up

against the same entrenched bureaucracy that has held you back before. The engineers still battle manufacturing. Marketing continues to slug it out with sales. And the financial naysayers fight everyone.

That's because, despite the cutbacks, you probably still work in the typical vertical organization, a company in which staffers look up to bosses instead of out to customers. You and your colleagues feel loyalty and commitment to the functional fiefdoms in which you work, not to the overall corporation and its goals. And even after all the cutting, too many layers of management still slow decision-making and lead to high coordination costs.

Mere downsizing, in other words, does little to change the fundamental way

that work gets done in a corporation. To do that takes a different organizational model, the horizontal corporation. Already, some of Corporate America's biggest names, from American Telephone & Telegraph and DuPont to General Electric and Motorola, are moving toward the idea. In the quest for greater efficiency and productivity, they're beginning to redraw the hierarchical organization charts that have defined corporate life since the Industrial Revolution (page 80).

"WAVE OF THE FUTURE." Some of the changes have been under way for several years under the guise of "total quality management" efforts, reengineering, business-process redesign. But no one knows which buzzword or phrase you should use. The trend is toward flatter organization.

SEVEN OF THE KEY ELEMENTS OF THE HORIZONTAL CORPORATION

Simple downsizing didn't produce the dramatic rises in productivity many companies hoped for. Gaining quantum leaps in performance requires rethinking the way work gets done. To do that, some companies are adopting a new organization model. Here's how it might work:



ORGANIZE AROUND PROCESS, NOT TASK

1 Instead of creating functional departments, structure the company around three to five "core processes," with specific performance goals. Assign a "process owner" to each process.

CORPORATION

IT'S ABOUT
MANAGING
ACROSS, NOT
UP AND DOWN



...sses, and create teams from different departments to run them.

ch managing across has become critical than managing up and in a top-heavy hierarchy.

horizontal corporation, though, much further than these previous. It largely eliminates both hierarchical functional or departmental boundaries. In its purest state, the horizontal corporation might boast a skeleton group of executives at the top in such minimal support functions as finance and human resources. But virtually everyone else in the organization would be together in multidisciplinary teams to perform core processes, such as product development or sales generation. The upshot: The organization might have only three or four layers of management between the chairman and the worker in a given process.

If the concept takes hold, almost every aspect of corporate life will be profoundly altered. Companies would organize around process—developing new products, for example—instead of around narrow tasks, such as forecasting market demand for a given new product. Self-managing teams would become the building blocks of the new organization. Performance objectives would be linked to customer satisfaction rather than profitability or shareholder value. And staffers would be rewarded not just for individual performance but for the development of their skills and for team performance.

For most companies, the idea amounts to a major cultural transformation—but one whose time may be at hand. "It's a wave of the future," declares M. Antho-

ny Burns, chairman of Ryder System Inc., the truck-leasing concern. "You just can't summarily lay off people. You've got to change the processes and drive out the unnecessary work, or it will be back tomorrow." Such radical changes hold the promise for dramatic gains in productivity, according to Lawrence A. Bossidy, chairman of AlliedSignal Inc. "There's an awful lot more productivity you're going to see in the next few years as we move to horizontally organized structures with a focus on the customer," says Bossidy.

How so? Just as a light bulb wastes electricity to produce unwanted heat, a traditional corporation expends a tremendous amount of energy running its own internal machinery—managing relations among departments or provid-

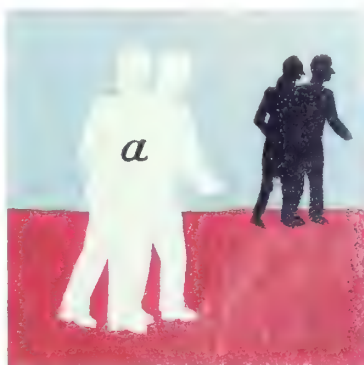
FLATTEN HIERARCHY

- 2 To reduce supervision, combine fragmented tasks, eliminate work that fails to add value, and cut the activities within each process to a minimum. Use as few teams as possible to perform an entire process.



USE TEAMS TO MANAGE EVERYTHING

- 3 Make teams the main building blocks of the organization. Limit supervisory roles by making the team manage itself. Give the team a common purpose. Hold it accountable for measurable performance goals.



ing information up and down the hierarchy, for example.

A horizontal structure eliminates most of those tasks and focuses almost all of a company's resources on its customers. That's why proponents of the idea say it can deliver dramatic improvements in efficiency and speed. "It can get you from 100 horsepower to 500 horsepower," says Frank Ostroff, a McKinsey & Co. consultant. With colleague Douglas Smith, he coined the term "the horizontal organization" and developed a series of principles to define the new corporate model (page 76).

The idea is drawing attention in corporate and academic circles. In the past year, Ostroff has given talks on the horizontal organization before sizable gatherings of corporate strategic planners, quality experts, and entrepreneurs. He has also carried the message to MBAs and faculty at the University of Pennsylvania and Yale University, and he boasts invitations from Harvard University and several leading European business schools.

PROCESS AND PAIN. But this is much more than just another abstract theory making the B-school lecture rounds. Examples of horizontal management abound, though much of the movement is occurring at lower levels in organizations. Some AT&T units are now doing annual budgets based not on functions or departments but on processes such as the maintenance of a worldwide telecommunications network. They're even dishing out bonuses to employees based on customer evaluations of the teams performing those processes. DuPont Co. has set up a centralized group this year to nudge the chemical giant's business units into organizing along horizontal lines. Chrysler Corp. used a process approach to turn out its new Neon subcompact quickly for a fraction of the typical development costs. Xerox Corp. is employing what it calls "microenterprise units" of employees that have beginning-to-end responsibility for the company's products.

In early December, nearly two dozen companies—including such international giants as Boeing, British Telecommunications, Stockholm-based L. M. Ericsson, and Volvo Europe—convened in Boston under the auspices of Mercer Management Consulting, another consulting shop peddling the idea, to swap stories on their efforts to adopt horizontal management techniques. Indeed, nearly all of the most prominent consulting firms are now raking in tens of millions of dollars in revenues by advising companies to organize their operations horizontally.

What those consultants' clients are quickly discovering, however, is that eliminating the neatly arranged boxes on an organization chart in favor of a more horizontal structure can often be a complex and painful ordeal. Indeed, simply defining the processes of a given corporation may prove to be a mind-boggling and time-consuming exercise. Consider AT&T. Initially, the company's Network Services Div., which has 16,000 employees, tallied up some 130 processes before it narrowed them down to 13 core ones.

After that comes the challenge of persuading people to cast off their old marketing, finance, or manufacturing hats and think more broadly. "This is the hardest damn thing to do," says Terry M. Ennis, who heads up a group to help DuPont's businesses organize along horizontal lines. "It's very unsettling and threatening for people. You find line and function managers who have been honored and rewarded for what they've done for decades. You're in a white-water zone when you change."

Some management gurus, noting the fervor with which corporate chieftains embrace fads, express caution. "The idea

draws together a number of fashion trends and packages them in an interesting way," says Henry Mintzberg, a management professor at McGill University. "But the danger is that an idea like this can generate too much enthusiasm, not for everyone." Mintzberg notes, however, that there is no one solution to every organization's problems. Indeed, streamlining vertical structures may suit some manufacturing industries better than the horizontal ones.

Already, consultants say, some companies are rushing to organize their processes without linking them to the corporation's key goals. Before time

COMPANIES MOVING TOWARD

AT&T Network Systems Div. reorganized its business around processes; now sets budget by process and awards bonuses to employees based on customer evaluations

EASTMAN KODAK Kodak unit has over 1,000 teams; ditched senior v-ps for administrative, manufacturing, and R&D in favor of self-directed teams

GENERAL ELECTRIC Lighting business scrapped functional structure, adopting horizontal design with more than 100 processes and programs

ing with its organization chart, Ostroff says, a company must understand its markets and the customers it wants to reach and complete an analysis of what it will take to win them. Only then should the company begin to identify the most critical core processes to achieve its objectives—whether that's lowering costs by 30% or developing new products in half the time it is normally required.

DIFFERENT CLIMATE. In the days when business was more predictable and stable, companies organized themselves in vertical structures to take advantage of specialized experts. The benefits are obvious: Everyone has a place, and everyone understands his or her task.



LET CUSTOMERS DRIVE PERFORMANCE

4 Make customer satisfaction—not stock appreciation or profitability—the primary driver and measure of performance. The profits will come and the stock will rise if the customers are satisfied.



REWARD TEAM PERFORMANCE

5 Change the appraisal and pay system to reward team results, not individual performance. Encourage staffers to develop multiple skills rather than specialized know-how and reward them for it.

cal decision-making power resides at the top. But while gaining clarity and simplicity, such organizations make it difficult for anyone to understand the task of the company as a whole and how to get his or her work to it. The result: collaboration among different departments was often a triumph over formalization charts.

To solve such problems, some companies turned to so-called matrix organizations in the 1960s and 1970s. The model was built around specific projects cut across departmental lines. But it kept the hierarchy intact and left the power and responsibility in the upper reaches of the organization. Heightened global competition and the

AT&T's Network Systems Div. "We weren't performing as well as we could, and we had already streamlined our operations."

In all cases, the objective of the horizontal corporation is to change the narrow mind-sets of armies of corporate specialists who have spent their careers climbing a vertical hierarchy to the top of a given function. As DuPont's Terry Ennis puts it: "Our goal is to get everyone focused on the business as a system in which the functions are seamless." DuPont executives are trying to do away with what Ennis calls the "disconnects" and "handoffs" that are so common between functions and departments. "Every time you have an organizational

boundary, you get the potential for a disconnect," Ennis says. "The bigger the organization, the bigger the functions, and the more disconnects you get."

SPEEDIER CYCLES. The early proponents of the horizontal corporation are claiming significant gains. At General Electric Co., where Chairman John F. Welch Jr. speaks of building a "boundaryless" company, the concept has reduced costs, shortened cycle times, and increased the company's responsiveness to its customers. GE's \$3 billion lighting business scrambled a more traditional structure for its global technology organization in favor of one in which a senior team of 9-to-12 people oversees nearly 100 processes or programs worldwide, from new-product design to improving the yield on production machinery. In virtually all the cases, a multidisciplinary team works together to achieve the goals of the process.

The senior leadership group—composed of managers with "multiple competencies" rather than narrow specialists—exists to allocate resources and ensure coordination of the processes and programs. "They stay away from the day-

to-day activities, which are managed by the teams themselves," explains Harold Giles, manager of human resources in GE's lighting business.

The change forced major upheavals in GE's training, appraisal, and compensation systems. To create greater allegiance to a process, rather than a boss, the company has begun to put in place so-called "360-degree appraisal routines" in which peers and others above and below the employee evaluate the performance of an individual in a process. In some cases, as many as 20 people are now involved in reviewing a single employee. Employees are paid on the basis of the skills they develop rather than merely the individual work they perform.

Ryder System is another convert. The company had been organized by division—each with its own functions—based on product. But it wanted an organization that would reduce overhead while being more responsive to customers. "We were reaching the end of the runway looking for cost efficiencies, as most companies have," says J. Ernie Riddle, senior vice-president for marketing. "So we're looking at processes from front to back."

To purchase a vehicle for leasing, for instance, required some 14 to 17 handoffs as the documents wended their way from one functional department to another at a local, and then a national, level. "We passed the baton so many times that the chances of dropping it were great," says Riddle. By viewing this paperwork flow as a single process from purchasing the vehicle to providing it to a customer, Ryder has reduced the handoffs to two from five. By redesigning the work, weeding out unnecessary approvals, and pushing more authority down the organization, the company cut its purchasing cycle by a third, to four months.

"A CLEAN SHEET." Some startups have opted to structure themselves as horizontal companies from the get-go. One such company is Astra/Merck Group, a new stand-alone company formed to market anti-ulcer and high-blood-pres-

HORIZONTAL MODEL

IBM Former IBM division of managers in manufacturing and support of cross-functional teams worldwide

GE Government Electronics group redevelops supply management organization as a single process with external customers at the end; teams are now evaluating peers

GE Develops new products through multidisciplinary teams that work in a single process, in vertical functions or departments

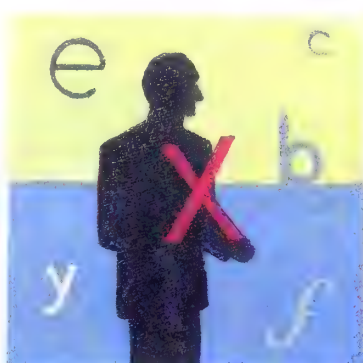
DATA: BUSINESS WEEK, MCKINSEY & CO

increasing speed of technological change have since altered the rules of the game and have forced corporate managers to seek new solutions. "We're reluctant to leave the command-and-control structure because it had worked so well," says Philip Engel, president of CNA Corp., the Chicago-based insurance company that is refashioning its organization. "But it no longer fit the times."

Indeed, many companies are moving to a new form of corporate organization, rather than failing to achieve needed productivity gains by simple streamlining and consolidation. "We didn't have another horse to ride," says Kenneth L. Pratt, a senior vice-president at

MAXIMIZE SUPPLIER & CUSTOMER CONTACT

6 Bring employees into direct, regular contact with suppliers and customers. Add supplier or customer representatives as full working members of in-house teams when they can be of service.



INFORM & TRAIN ALL EMPLOYEES

7 Don't just spoon-feed sanitized information on a "need to know" basis. Trust staffers with raw data, but train them in how to use it to perform their own analyses and make their own decisions.

HOW TO CREATE A HORIZONTAL CORPORATION

BY JAMES QUINN AND CHARLES HANDY

Identify strategic objectives.

Analyze key competitive advantages to fulfill objectives.

Define core processes, focusing on what's essential to accomplish your goals.

Organize around processes, not functions. Each process should link related tasks to yield a product or service to a customer.

Eliminate activities to add contributions to key objectives.

sure drugs licensed from Sweden's Astra. Instead of organizing around functional areas, Astra/Merck is structured around a half-dozen "market-driven business processes," from drug development to product sourcing and distribution. "We literally had a clean sheet of paper to build the new model company," says Robert C. Holmes, director of strategic planning. "A functional organization wasn't likely to support our strategic goals to be lean, fast, and focused on the customer."

Some fairly small companies are also finding the model appealing. Consider Modicon Inc., a North Andover (Mass.) maker of automation-control equipment with annual revenues of \$300 million. Instead of viewing product development as a task of the engineering function, President Paul White defined it more broadly as a process that would involve a team of 15 managers from engineering,

manufacturing, marketing, sales, and finance.

By working together, Modicon's team avoided costly delays from disagreements and misunderstandings. "In the past," says White, "an engineering team would have worked on this alone with some dialogue from marketing. Manufacturing wouldn't get involved until the design was brought into the factory. Now, all the business issues are right on the table from the beginning."

TEAM HATS. The change allowed Modicon to bring six software products to market in one-third the time it would normally take. The company, a subsidiary of Germany's Daimler Benz, still has a management structure organized by function. But many of the company's 900 employees are involved in up to 30 teams that span several functions and departments. Predicts White: "In five years, we'll still have some formal functional structure,

but people will probably feel free enough to spend the majority of their time outside their functions."

So far, the vast majority of horizontal experimentation has been at the local levels of organizations. Increasingly, however, corporations are overhauling their entire structures to bear a closer resemblance to the horizontal model defined by consultants Ostroff and others. Eastman Chemical Co., the \$3.5 billion unit of Eastman Kodak Co. to be spun off as a stand-alone company on January 1, replaced several of its senior vice-presidents in charge of the key functions with "self-directed work teams." Instead of having a head of manufacturing, for example, the company uses a team consisting of all its plant managers. "It's the most dramatic change in the company's 70-year history," maintains Ernest W. Deavenport Jr., president of Eastman Chemical. "It makes people

CONGRATULATIONS. YOU'RE MOVING TO A NEW PEPPERONI

If the 21st century corporation goes horizontal, what will its organization chart look like? That's right, organization charts—those dull, lifeless templates that reduce power relationships to a confusing mass of boxes and arrows. As a growing number of planners try to turn a management abstraction into a pragmatic reality, organization charts are beginning to look stranger and stranger.

Consider Eastman Chemical Co., the Eastman Kodak Co. division to be spun off as a separate company in January. "Our organization chart is now called the pizza chart because it looks like a pizza with a lot of pepperoni sitting on it," says Ernest W. Deavenport Jr., who as president is the pepperoni at the center of the pie. "We did it in circular form to show that everyone is equal in the organization. No one dominates the other. The white space inside the circles is more important than the lines."

Each pepperoni typically represents a cross-functional team responsible for managing a business, a geographic area, a function, or a "core competence" in a

specific technology or area such as innovation. The white space around them is where the collaborative interaction is supposed to occur.

Eastman Chemical's pizza isn't the only paper representation of the horizontally inclined corporation. PepsiCo flipped its pyramidal organization chart upside-down. To help focus on customers, Pepsi put its field reps at the top. Chief Executive Craig Weatherup now calls Pepsi-Cola, the huge beverage unit of PepsiCo, "the right-side-up company." Astra/Merck Group—nearly a pure horizon-

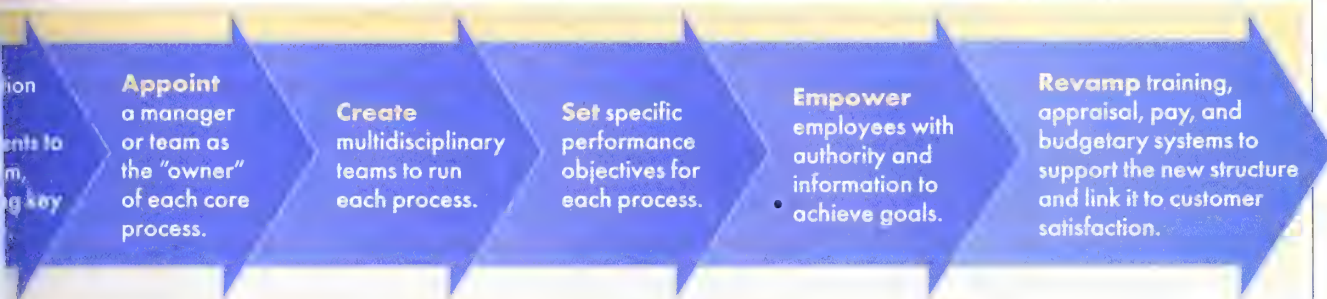
tal company—boasts a chart with a series of six elongated rectangles, each representing a core process of the pharmaceutical startup. Across the top is a series of functional boxes, or "kitchen sinks," that drive down through the processes with arrows.

WILD SHAMROCKS. For its own horizontal model of what the horizontal organization should look like, McKinsey & Co., the consulting firm, came up with a fairly abstract rendering of three processes floating above a trio of core products. Each process is represented

MODELS FOR THE MODERN CORPORATION?

JAMES QUINN'S STARBURST

CHARLES HANDY'S SHAMROCK



their organizational hats and put on team hats. It gives people a much larger perspective and forces decision-making down at least another level." In creating the new organization, the senior managers agreed that the primary role of the functions was to support Eastman's business in chemicals, plastics, fibers, and polymers. "A function does not and should not have a life of its own," insists Deavenport. "It makes no sense? Of course. But over the years, the functional departments had become strong and powerful, as they do in many organizations, often at the expense of the overall company as they tried to protect and build turf. Now, finally all of the company's managers are working on at least one cross-functional team and most work on two or more on a daily basis. For example, Tom O. Murray, a group vice-president, runs the industrial-business group. But he also

serves on three other teams that deal with such diverse issues as human resources, cellulose technology, and product-support services.

These changes in the workplace are certain to dramatically alter titles, career paths, and the goals of individuals, too. At AT&T's Network Systems Div., each of 13 core processes boasts an "owner" and a "champion." While the owners focus on the day-to-day operations of a process, the champions ensure that the process remains linked with overall business strategies and goals. Through it all, collaboration is key. "An overriding challenge is how you get marketing people to talk to finance people when they've thrown rocks at each other for decades," says Gerald Ross, co-founder of ChangeLab International, a consulting firm that specializes in cultural transformation. "Your career will be dependent on your ability to work across

boundaries with others very different from you."

Don't rush to write the obituary for functional management, however. No companies have completely eliminated functional specialization. And even advocates of the new model don't envision the end of managers who are experts in manufacturing, finance, and the like. "It's only the rarest of organizations that would choose to be purely vertical or horizontal," says consultant Douglas Smith. "Most organizations will be hybrids."

Still, the horizontal corporation is an idea that's gaining currency and one that will increasingly demand people who think more broadly and thrive on change, who manage process instead of people, and who cherish teamwork as never before.

By John A. Byrne in New York, with bureau reports

circles on the surface. The metaphorize the multidisciplinary nature of a specific process. It's not the first time organizations have tried to come up with a alternative to the vertical structure that has dominated business for a long time. Some have been as simple as the shamrock image promoted by Unilever. Handy, a lecturer at the London Business School. Its three leaves represent the joining forces of core employees, external contractors, and partners. James Brian Quinn, a Dartmouth School prof, thought up the metaphor to reflect the company that has been like shooting stars. The experimental designs are

really just metaphors for the 21st century corporation, not pragmatic structures that any company has actually adopted. And for every upside-down pyramid, you'll still find thousands of conventional charts.

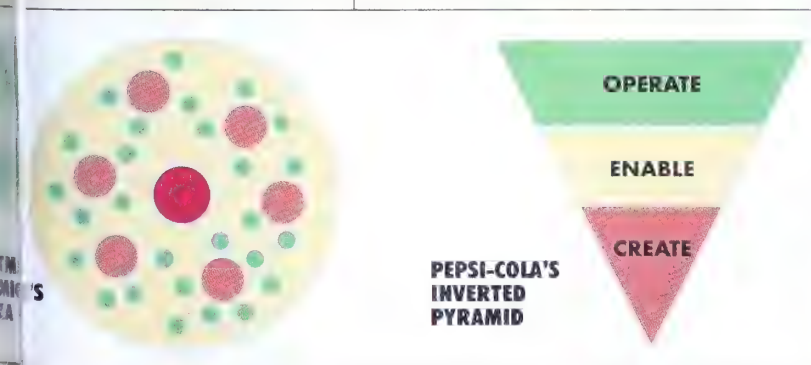
Just browse through the Conference Board's repository of organization charts, a collection that features the latest diagrams of 450 corporations, from Advance Bank Australia to Xerox. The New York-based organization has been selling charts, at \$14 apiece, for nearly a decade. Over that time, the organizational diagrams have gotten flatter, with fewer reporting levels, and they've become more decentralized, too. More recently, in response to heightened concern over cor-

porate governance, some companies such as Mobil Oil Corp. and Ford Motor Co. have put shareholders and the board of directors in boxes above the top dog. But they still favor the old vertical, command-and-control hierarchy.

All of the Conference Board's best-sellers—BankAmerica, Ford, General Electric, IBM, and Motorola—are pretty much what you would expect: plenty of boxes connected by lines in steep pyramids. Indeed, under Ford's office of the chief executive, there are a mind-boggling 59 boxes of divisions, departments, and functions.

Only a few of the charts reflect the trend toward horizontal organization. Why? For one thing, it's simply too early. "Organization charts lag what's happening," says Douglas Smith, a consultant who helped develop the horizontal idea. "And a lot of people can't figure out how to draw it any other way." For another, most of the more dramatic changes along horizontal lines are occurring at divisional or subsidiary levels. That's where—at PepsiCo and Eastman Kodak, at least—those pizzas and inverted pyramids are symbols that the business-as-usual days are long gone.

By John A. Byrne in New York



JOBLESS AT 50? IT'S NOT HOPELESS

Older workers have more opportunities than just a few years ago

When CAE-Link Corp. closed its Sunnyvale (Calif.) plant last year, Rod Loehr seemed destined to be another unemployment statistic. After all, he was 54 and had worked for CAE-Link for 33 years. But Loehr, an engineer, wasn't ready to retire—and didn't have to. He soon landed a better-paying job.

Loehr's secret? Resourceful networking and new skills. He used CAE-Link's data base of employees to get in touch with old colleagues. And Loehr never let himself rely on past achievements. He learned new software, and he plans on tackling network technology next. "Taking classes helped me get the position I'm in, because they saw that I was alive and not just flesh and bones," says Loehr, now an engineering manager at Litton Applied Technology.

Loehr is one of the fortunate few—but he's not the only over-50 success story these days. To be sure, tough times have made it difficult for all age groups to find jobs, but older workers have had it especially rough. They have had to fight society's preoccupation with youth, not to mention outright age discrimination. And their higher salaries have made them prime targets for layoffs. From 1989 to 1992, the number of over-50s who were unemployed jumped 68.1%, compared with a 40.6% increase for people under 50.

But now, there is some evidence that as the economy improves, the tide may be turning for older workers, although

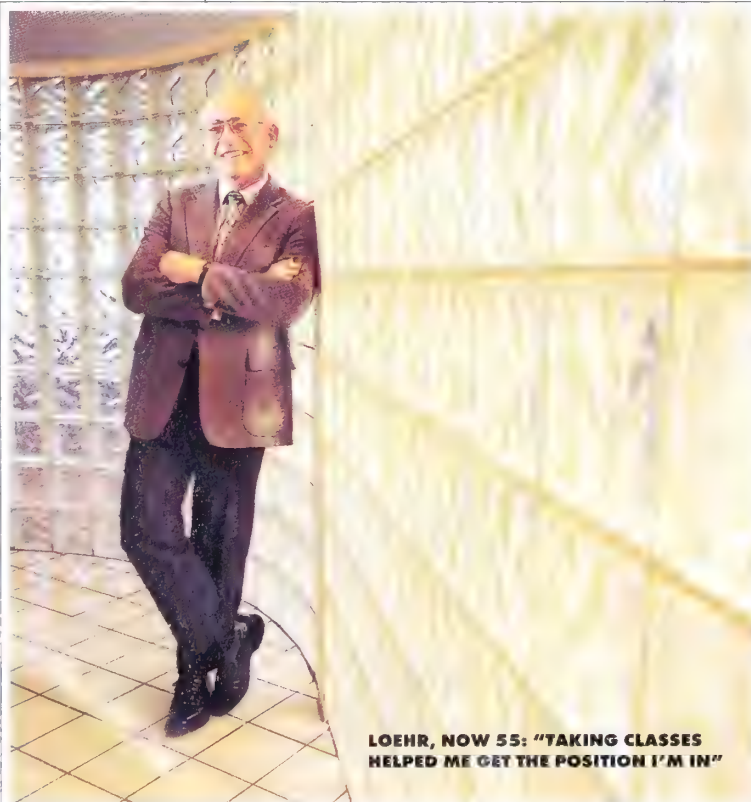
still not quite as fast as for younger ones. Through October, the average number of unemployed over-50s dropped 4.5% from last year, compared with a 5.1% decline for workers under 50. Age-discrimination claims filed with the Equal Employment Opportunity Commission dropped by 9.2% in the fiscal year ended Sept. 30.

MORE SEASONING. For many job hunters and career counselors, the statistics show what they already knew: While age can sometimes be an obstacle, it's not always an insurmountable one—and it can even be an asset. "We are definitely seeing more of an interest in older workers," says Kate Wendleton, founder of the Five O'Clock Club, a national career-strategy group. "Companies that were burned by the young MBAs are deciding that they want more seasoned talent."

Some veteran managers who have been laid off from large companies are being grabbed by their former rivals. Others are selling their skills as temporary CEOs. But older workers at lower levels are having the most luck targeting smaller companies, where their ability to step right in is key. Still, no matter where older workers set their sights, the strategy used to find work is essential to their success (table).

For older casualties of downsizing, keeping their skills current, finding new opportunities may be little more painful than it is for younger applicants. Consider an internal survey by Jannotta Bray & Associates, a Chicago-based career management-services firm. So far this year, it found that executives over 50 earned upwards of \$100,000 took an average of eight months to place, according to Tom Wilson, Midwest managing director. For executives under 50, placement took about seven months. But Wilson says that chance of success may boil down to how far past 50 the individual is. "In the early 50s, it's a difficult sell, but not as difficult as for those over 60. The other half of the midpoint—55 and above," he says.

Dean E. Ridlon was 55 when he was laid off from the street after a long career in banking, most recently as the head of the trust department at the Bank of Boston. But he got lucky. An executive recruiter called on his first day at his



LOEHR, NOW 55: "TAKING CLASSES HELPED ME GET THE POSITION I'M IN"

A LIFELONG STRATEGY FOR JOB SUCCESS

Laid-off older workers can buck the odds and snag good jobs by applying the same techniques as younger workers:

- ▶ Constantly upgrade skills instead of resting on past performance
- ▶ Develop a broad and expanding range of contacts and keep current
- ▶ Target high-growth jobs or industries, or small businesses
- ▶ Market experience, energy, and flexibility—not years of service
- ▶ Price skills according to what the market will bear instead of prior salary

DATA: BUSINESS WEEK

hin weeks, he was CEO of Haldor-
ment Advisors in Boston. He now
ages \$1 billion in assets and a staff
3. Although it's a smaller group, he
ns much more than before. "These
er executives often have a more ral
perspective," says Nicholas Hurd,
Boston-based executive search can-
tant who recruited Ridlon to Haldor.
AL BIDS. No matter what your age,
elps if you're known in the field—and
mate to be in an industry with jobs.
t's what Jeanne Pape, 51, discovered
summer, when her division was
nsized. Pape had spent the past 27
s in sales for A.C. Nielsen Co. and
accessors. Over the years, she had
a name for herself in publishing,
through her work and her trade-
p activities. So when she got axed,
landed interviews with her former
ls—and a "better deal," she says.

She now sells computer services to mag-
azine publishers for JCI Data Process-
ing Inc. in Cinnaminson, N.J.

Some older workers are opting not
to look for jobs at all. When Richard
Hite's marketing position at Owens-Cor-
ning Fiberglas Corp. was phased out this
summer, he chose a severance package
instead of a job within the company. He
used the money and his 29 years of ex-
perience to launch Results Inc., a con-
sulting firm near Toledo. Since opening
five months ago, Hite has lined up
enough clients to earn about half his
former six-figure salary this year. If
business keeps up, he hopes to exceed
his prior income by early 1995.

Of course, positive thinking and grit
can go only so far when good jobs are
few. Dorothy Mann, 53, has been job
hunting since February, 1992, when her
position as marketing manager at Purdy

Products, a cleaning-goods manufacturer,
was cut. She has had two temporary
jobs in the interim. When Mann is not
working, she mails out 15 resumés a
week and averages four interviews a
month. Even though she has been of-
fered three full-time jobs this year, all
paid at least \$15,000 less than her for-
mer \$45,000 salary.

It's never easy to be unemployed, but
longevity is giving Mann and others rea-
son to take heart. "When I started 15 to
20 years ago, people used to be con-
cerned when they turned 40," says Bill
Beeson, a partner at Lawrence-Leiter
and Co., a search firm in Kansas City,
Mo. Now, "the age has crept up to 50."
If workers stay productive, and compa-
nies get smart, it'll keep rising.

*By Lori Bongiorno in New York, with
Ann Therese Palmer in Chicago, Judy
Temes in Boston, and bureau reports*

Commentary/by Michele Galen

MYTHS ABOUT OLDER WORKERS COST BUSINESS PLENTY

America is aging: In just two
years, the baby boomers start
turning 50. By 2005, some 30%
he population will be 50 or over.
kers 55 and above are the fastest-
ving sector of the labor force. From
to 2005, their ranks are expected
mp 43.7%.

uch figures send a sobering mes-
to employers caught in a wave of
ffs and early-retirement programs
are thinning out older workers: To
competitive, they must make bet-
se of graying talent.

eginning that process means get-
rid of stereotypes about older
ers. Too many companies today as-
e that workers over 50 are less
ble and productive, more expen-
and just not as "with it" as their
ger colleagues. In fact, the opposite
ue: Older workers consistently re-
high ratings on key job skills, loy-
reliability, and lack of turnover
absenteeism, according to a recent-
ompleted five-year study by the
monwealth Fund in New York, as
as other research.

ING GOLF. Companies that dismiss
workers are often losing superior
oyees. For her new book, *The
evity Factor: The New Reality of
Careers and How It Can Lead to
r Lives*, Lydia Brontë, a Manhattan
tologist, interviewed 150 people
102 who have stayed at work.
ound that almost half of them had
most productive years at 50 or
Another taking-off point began
d 65, when one-third of the group

had a major achievement. "It makes no
sense to early-retire people in their ear-
ly 50s or treat them as if they are old,"
says Brontë. "They aren't old. No way."

To take advantage of such workers,
companies must face another myth: that
anyone over 50 is marking time until re-
tirement and so isn't worth developing
or retraining. But many older work-
ers—whether forced to retire or not—
want to keep working for personal and
financial reasons. Take James D. Moore,
50, of Alexandria, Va. With 26 years
in, he exercised an early-
retirement option
from BellSouth Corp.
But Moore wanted to
keep working—for two
reasons: He had a pair
of kids in college. And
he just wasn't ready to
pack it in. "I couldn't
see myself playing
golf," says Moore. He's
now vice-president for
training and develop-
ment at Northern Tele-
com Inc.

Instead of laying off
older workers wholesale, employers can
create arrangements that benefit both
them and the employee. For example,
companies could cut back on hours or
pay: Older employees could still con-
tribute but enjoy greater freedom. Such
arrangements also would let employers
protect their talent base and avoid mil-
lions in costly severance packages.

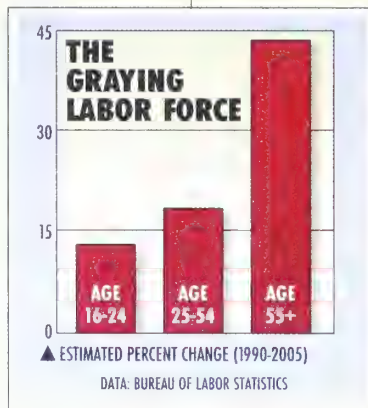
Or employers could look for places
in-house to exploit their experience.

Recognition International Inc. in Dal-
las, for one, has been downsizing for
the past four years. But of the 250
workers who have lost their jobs, as
many as 100—more than half of those
who were over 40—found other posi-
tions within the company, says Wilemia
Shaw, vice-president for human re-
sources. Through a practice known as
"in-placement," Recognition gives work-
ers the chance to take on other assign-
ments at the same salary and benefit
level. While the work is usually only

temporary, the hope is
that it will turn into
something more last-
ing. "These people
probably have a spe-
cial skill that we just
can't get on the mar-
ket—not at the price
we could give," Shaw
explains.

Before companies
can fully utilize the
graying work force,
older workers must
make changes, too.
Despite the tight job

market, too many still believe the world
owes them a living because of all the
years they put in, and so they don't
bother to update their skills. Others as-
sume—rightly or wrongly—that age is a
problem and take themselves out of the
running. Ultimately, both employees and
employers must become age-neutral.
That way, older workers can rise or fall
on their abilities and not on outdated
notions of what age means.





Everyone said the Balboa Bearcats couldn't win. That they were small, didn't have any substitute players, and their best striker was out with the chicken pox. But what everyone couldn't see was what was inside. You see, the Balboa Bearcats had a dream. And that was to be the best team in the All-Valley tournament. To make up for the lack of size with heart, guts and determination. To work together toward a common goal.

also have a goal. Even though it has nothing to do with winning trophies or awards.

For years, teams of Canon employees from every area of operations have been working to create environmentally correct programs to help care for and preserve our world's resources.



Programs ranging from the development of alternative clean energy sources, to cleaner manufacturing processes, to a cartridge recycling

It takes teamwork.

At Canon, we believe that dreams become reality. That's why we've proudly supporting young athletes, in many fields, for years. And why we're proud to be an Official Worldwide Sponsor of World Cup and U.S. Soccer. Because we know what it takes to be committed to a global dream. You see, we



program. And all designed with the same vision. To help our communities become a better place for all of us. Because at Canon, we've learned something from Kristen, Nicole, Sarah, Amy, Mary Beth, Roseann, Sandi, Beverly, Rachel, Dee, and Eileen. And that's to make a world of difference takes teamwork. And a dream.

Canon

THE TWO EMPIRES OF MAX CHAPMAN

He has made Nomura Securities' U.S. operation a success—but side ventures are raising questions

In many ways, Max C. Chapman Jr. is Nomura Securities Co.'s dream executive. He was a respected Wall Street insider who had been president of Kidder, Peabody & Co. When Nomura, the world's largest brokerage, hired him in 1989 to become the first American to run a Japanese firm's U.S. operations, its executives saw Chapman as a key to unlock the U.S. financial markets. Nomura Securities International (NSI), Nomura's U.S. subsidiary, had been in New York for 39 years without earning a profit.

Today, Chapman is in the fourth year of a five-year employment contract and is angling for a promotion. "At some point, Nomura will say to me, 'We would like you to do something more,'" he says. "Or I'll decide to do something else."

Chapman, 50, can make a strong case for himself. He has gone a long way toward making NSI into an American company. He has weaned it away from dependence on Japanese clients and says it now does more than 90% of its business with U.S. customers. NSI's capital has swelled from \$377 million to \$840 million, its assets are now \$40 billion, and it has 850 employees. Best of all, the firm earned \$40 million from April to September, 1993, and is on track to earn over \$100 million through March, 1994, says Chapman. "We were a pygmy in America four years ago. Now, we're a good, solid, medium-sized firm," he says.

Clouding Chapman's successes, though, is considerable controversy within Nomura about what is known internally as Max Inc., two unpublicized ventures established by Chapman and run independently of Nomura for his own benefit. Chapman's main en-

tity is Moran Group, an investment firm formed in October, 1992. Another entity is CCM Capital, which does leveraged-buyout deals.

Several securities experts see the possibility of a conflict between these outside ventures and Chapman's obligations to Nomura. Says Roy C. Smith, professor of finance at New York University's Stern School of Business and a Wall Street veteran: "This creates a division of a guy's time between his employees and his [own] principal activities. How can you expect him to give his last dollar and his last 10 minutes when he might rather put it into his own trading activities?" He adds that while Japanese

firms are often willing to give broad license to attract senior U.S. executives, "this is a special arrangement and wouldn't be tolerated at a major U.S. firm because of potential conflicts."

UNHAPPY. Junichi Ujiie, co-chairman of NSI with Chapman, backs Chapman. "Compared to the success he, along with me, brought to this company, I really don't think this [arrangement] is overly sweet to him," Ujiie says. Sources close to Nomura say his Japanese bosses have been uneasy with Chapman's outside activities and have been trying to exert some control over them. But not until Oct. 1 of this year was Nomura able to get Chapman



CHAPMAN: IT'S UNUSUAL, BUT IT DOESN'T MEAN IT'S WRONG

to formal oversight of his personal trading activities.

Chapman was visibly unhappy when **BUSINESS WEEK** asked him questions about his private business dealings, the details the magazine uncovered from documents and extensive interviews with Wall Street executives, trading-floor Nomura employees, and others close to the firm. Chapman denies any conflicts. He admits that having a second business on the side is unusual on Wall Street but adds that "just because it's unusual, doesn't mean it's wrong," he says, and Nomura has concluded that all of his business activities disclosed and approved by Nomura since he began them and that under the October agreement, every trade he makes is reviewed and cleared by Nomura. "The firm does well and I've benefited from that's what the deal is all about," Chapman. "Nomura is not uncomfortable. They know what's going on." He says his priorities are clear: his own personal business has taken up more time than the firm's business.

Chapman's ownership of Moran Group stirred up most of the debate with Nomura. According to filings with the Delaware Secretary of State, Moran is a limited partnership run by a general partner, Gardner Capital Management Corp. who is none other than

In October, Nomura put formal measures in place to oversee Chapman's personal trades

Chapman. Moran's offices, as well as CCM Capital's, are in the same building in the World Financial Center as NSI's offices. Chapman says he spends very little time on his personal business and "very seldom" visits Moran's offices, except occasionally to "have a sandwich with the guys at lunch."

Chapman confirms that Moran manages money, but he won't comment on its clients. Knowledgeable sources close to Nomura say that Moran's money comes from one exclusive client, Ross Capital. According to several Wall Street trading sources, Ross is part of a group of mostly Bermuda-based companies run by Wolfgang Flottl, a secretive Austrian banker and big-league trader. Arthur Liman, Flottl's attorney, declined comment.

Sources close to Nomura maintain that in some cases, Chapman gets preferential treatment from Nomura for his Moran trades. They allege that although the firm doesn't lose money on the transactions, Chapman sometimes gets

better pricing and better financing rates than Nomura's best customers.

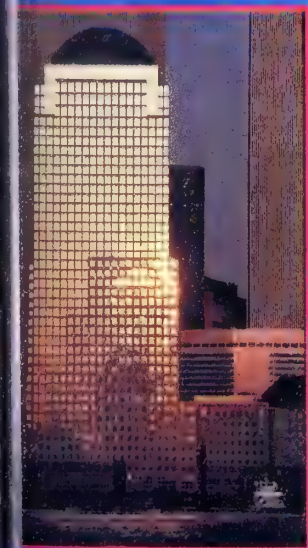
At times, assert these sources, Chapman has personally walked down on the trading floor and executed trades for Moran. To illustrate how it works, they say Chapman will go to a bond trader and ask the trader to tell him how much it would cost to buy 500 long bonds. The bond trader, the sources say, might quote Chapman a favorable price, since Chapman ultimately controls that trader's bonus. Although a customer normally would finance a transaction at the London Interbank Offered Rate plus 3 percentage points, Chapman might get a rate of LIBOR plus 2 points.

GOOD CUSTOMER. Chapman denies that he has ever received preferential treatment or that he pulls rank at Nomura to get a good deal. "I conduct myself honestly. My first responsibility is to manage Nomura. I've never argued about a commission." He says he did execute trades for Moran in the "first month or so" after it was formed but since has stopped. "When I first started, I would say, 'Go buy some futures.' We decided it was not a good idea. I stopped doing that. Procedures were put in place." According to Chapman, the October agreement "says I will not interface with the salesmen," that trading will be "done on a fully disclosed basis," and that "No-

INC.

GROUP

person money-management firm controlled by Chapman. Located in the same World Financial Center building as Nomura's New York offices.



BAR B BAR RANCH

Originally 1,200 acres in Jackson Hole, Wyo. Now, Chapman is developing it as the Bar B Bar Meadows, which will contain 82 home sites on 577 acres.

CCM CAPITAL

A three-person leveraged-buyout fund that invests up to \$25 million of Chapman's money in such companies as a restaurant-equipment maker. Located in the same offices as Moran Group.



ROSS CAPITAL

Chapman's key client and investor in Moran Group. It is controlled by Austrian banker Wolfgang Flottl, whose wife is Anne Eisenhower, Ike's granddaughter.

mura has the right to cancel the trade."

Chapman argues that Moran generates commissions for NSI because it is a good customer. Under the October agreement, Chapman pays Nomura an advisory and administrative fee for access to Nomura's ideas and research and its monitoring of Moran's trading.

Peter Chepucavage, NSI's general counsel, says permission to establish Moran was added to Chapman's contract when Moran was organized. "We decided to approve it because it did not interfere with his responsibility as co-chairman of NSI," says Ujii. Before the October agreement, says Chepucavage, he was "personally responsible for looking at [Chapman's] trades." Chepucavage says the agreement set up a committee of four NSI executives to oversee Chapman's trading. "He trades a lot, and I was busy, and it's fair to say I wanted some help," he says. The committee is made up of managers who report to Chapman, which experts say is not an ideal situation. Says Harvey J. Goldschmid, law professor at Columbia University law school: "In general, we would want disinterested directors passing on any transactions of that CEO, or senior executives above the CEO, not below."

INTIMIDATING. CCM Capital, Chapman's LBO firm, was set up in December, 1992, and is run by T. Guy Minetti, former head of Kidder's high-yield department, according to *Private Equity Analyst*, a Wellesley (Mass.) newsletter. Chapman has given CCM up to \$25 million to invest and pays CCM a management fee on that amount to cover overhead for the three-man operation, Chapman says. So far, CCM has bought two small companies for a total of \$3 million in equity. "He set Guy up with money. Max makes all the decisions," says a former colleague. Chapman says he has a clause in his original contract with Nomura that allowed him to start a merchant-banking fund. He says his only role at CCM is to provide capital.

Despite all the controversy, Chapman has done well building NSI's businesses. As a manager, he is both charming and



UJII CHAPMAN'S ARRANGEMENT "DID NOT INTERFERE" WITH HIS NOMURA DUTY

intimidating, with a bull-in-a-china-shop style that doesn't always please his Japanese bosses. "Max is relentless in pursuit of success," says John E. Toffolon Jr., NSI's chief financial officer.

His hard-driving style at NSI may derive in part from lingering disappointment that he didn't get the top job at Kidder. A slow learner until high school because of dyslexia, Chapman says he ultimately graduated with straight As. He went to the University of North Carolina on a football scholarship and then joined the Marines. "My wife says I spend my life proving myself to people." He is not modest about his wealth. With his new Gulfstream-3 jet, a sprawling ranch in Wyoming, and property in Virginia, he likes to brag, "I don't have to work to earn a living."

Instead of competing head-on with the big Wall Street firms for customers, when he joined Nomura Chapman targeted a few niche areas where Nomura's abundant capital might have an advantage. He hired Wall Street veterans and former lieutenants from Kid-

der, such as Joseph Schmuckler, to start proprietary trading operation, which is expanded to customer businesses. Nomura has a successful real estate financing business headed by Michael Berman, former Kidder, an equity division under James Reed from Barings, and a bond effort headed by Lawrence J. Pompa, an ex-Drexel banker.

Nomura still is a major player in Wall Street's main businesses of investment banking, mergers and acquisitions, or institutional stocks and bonds. "We're about to show up on the radar screen in equity and debt," says Robert D. Long

joined NSI from First Boston Corp. head investment banking. But it made big inroads in some niches, as program trading and collateralized mortgage obligations.

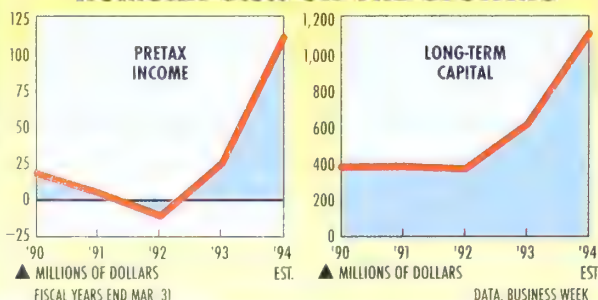
TOUGH SPOT. Right now, all of NSI is an intense Max watch. With his contract expiring in late 1994, the leadership is up in the air. Rumors are rampant. Some have Chapman running for senator from Wyoming, while others think he may leave and build a large financial empire. But what Chapman really seems to want is more responsibility at Nomura. In addition to keeping control of Nomura's U.S. operations, he would like to run Nomura's London office, says one Nomura executive.

Nomura is in a tough spot. Increasing its global presence and staying ahead of the rest of the Japanese brokerages in adjusting to the local market. Chapman has been difficult to work with, but losing him could set back expansion efforts.

Officially, the Japanese in Tokyo want New York back Chapman. Says Ito Tonomura, executive vice president of Nomura: "We hope that he's going to stay as CEO." Nomura, though, got more than it bargained for when it hired Chapman. His bosses must decide what his contributions are worth in controversial dealings.

By Leah Nathans in New York and Larry Hyatt in Tokyo, with Sandra Davidson in Denver

NOMURA U.S.: ON THE UPSWING



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THE BIG CHILL FOR MORTGAGE BANKERS

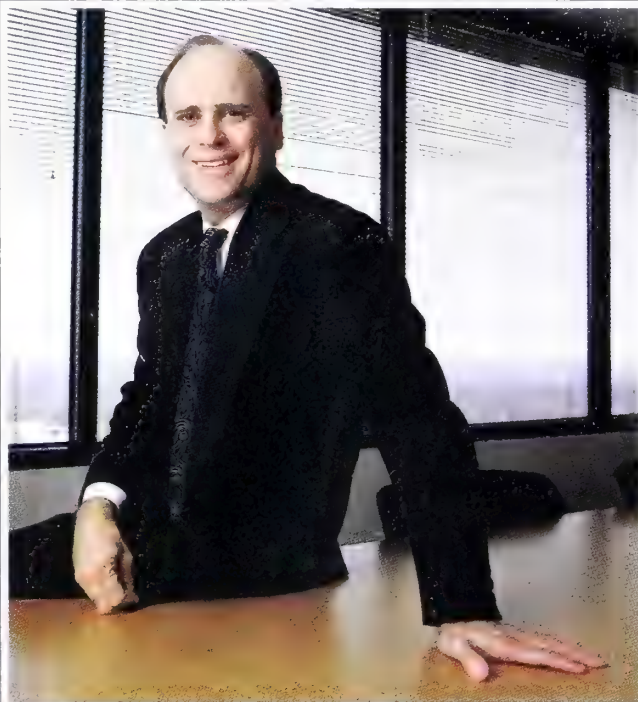
With fewer homeowners looking to refinance, a shakeout is likely

The unprecedented decline in interest rates over the past few years has been a bonanza for homeowners, who have rushed to refinance mortgages at much lower rates. The decline has also meant lucrative paydays for mortgage bankers and brokers, who account for half the nation's mortgage volume. Allan Gutterman, president of Response Professional Placement Inc., a New York mortgage-banking agency, says he has "more assignments than I can physically handle."

Unfortunately, the party may be winding down. Interest rates have leveled off. And with holders of more than \$1 trillion in adjustable-rate mortgages having already refinanced their mortgages, fewer homeowners will be looking to redo theirs. The Mortgage Bankers Assn. expects mortgage lending to decline from a record \$1.1 trillion in 1993 to \$849 billion next year, chiefly because of a big slowdown in refinancing activity (chart).

This could be good news for homeowners. Increased competition among lenders should produce better deals on loans. But it would be very bad news for mortgage bankers, many of whom depend more heavily on refinancings than on lending for new home purchases. "If you can't compete by having a low price, you're going to get killed," says Lawrence Swedroe, vice-chairman and chief economist of Prudential Home Mortgage Co., a subsidiary of Prudential Insurance Co. of America.

In the late 1980s, after mortgage rates turned around and spiked upward, many mortgage lenders and brokers went out of business, and employment in the industry dropped by 20%. But some predict the coming years will be even more



PRU'S SWEDROE: WITHOUT A LOW PRICE, YOU'LL "GET KILLED"

painful for the nearly 200,000 people in the industry. Says Stuart Feldstein, president of SMR Research Corp. in Budd Lake, N.J.: "We have the potential for a contraction that would make that one look like a walk in the park." Feldstein thinks lending activity could fall by 50% over the next few years, and tens of thousands of mortgage bankers could lose their jobs.

Exacerbating the mortgage bankers' plight is their predilection, shared with many other financial-services companies, for staffing up in good times and cutting back when things turn bad. When rates were high and refinancings were scarce in the late 1980s, industry employment dropped from 183,000 in mid-1987 to 147,000 two years later. When rates fell and refinancings increased, the ranks of mortgage bankers swelled to 195,000 by September, 1993.

Many in the industry believe mortgage brokers would be particularly hit by a drop in mortgage origination. For some, the pain has begun: Kaufman, chairman and CEO of National Mortgage Inc. in West N.Y., says some of the brokers he knows have already seen a 30% drop in volume. What's more, many brokers are former bankers and thrift executives who have hung out shingle with mortgage brokers and could be hurt by a slowdown.

STANDING PAT. Some companies, however, have strategies to contend with a slowdown. Prudential Home Mortgage handles relocation programs for 240 major corporations—a good source of new high-quality loans. It also offers infinity programs, marketing to members of the American Medical Assn., American Dental Assn., and others. Even though Swedroe expects a downturn in lending by late 1995, he expects Prudential booking a record \$45 billion in home mortgages in 1993. Simons Countrywide Credit Industries Inc. is opening retail offices and targeting first-time buyers ahead of refinancees, as well as expanding into new businesses such as mutual-fund sales.

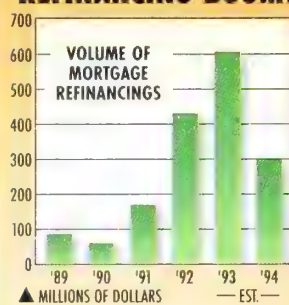
Mortgage bankers are also hedging bets by holding on to mortgage-servicing rights. As servicers, they collect borrowers' monthly payments and hold escrow accounts. When rates are rising and refinancings booming, servicing rights lose value because the loans are serviced often get prepaid. As rates fall, the reverse is true.

Many companies have also invested in technology and boosted production, improving their ability to weather a downturn. Stephen B. Ashley, incoming president of the Mortgage Bankers Assn. and chairman and chief executive officer of Sibley Mortgage Corp. in New York, N.Y., says his company is processing 30% more mortgages this year than last—with the same branches.

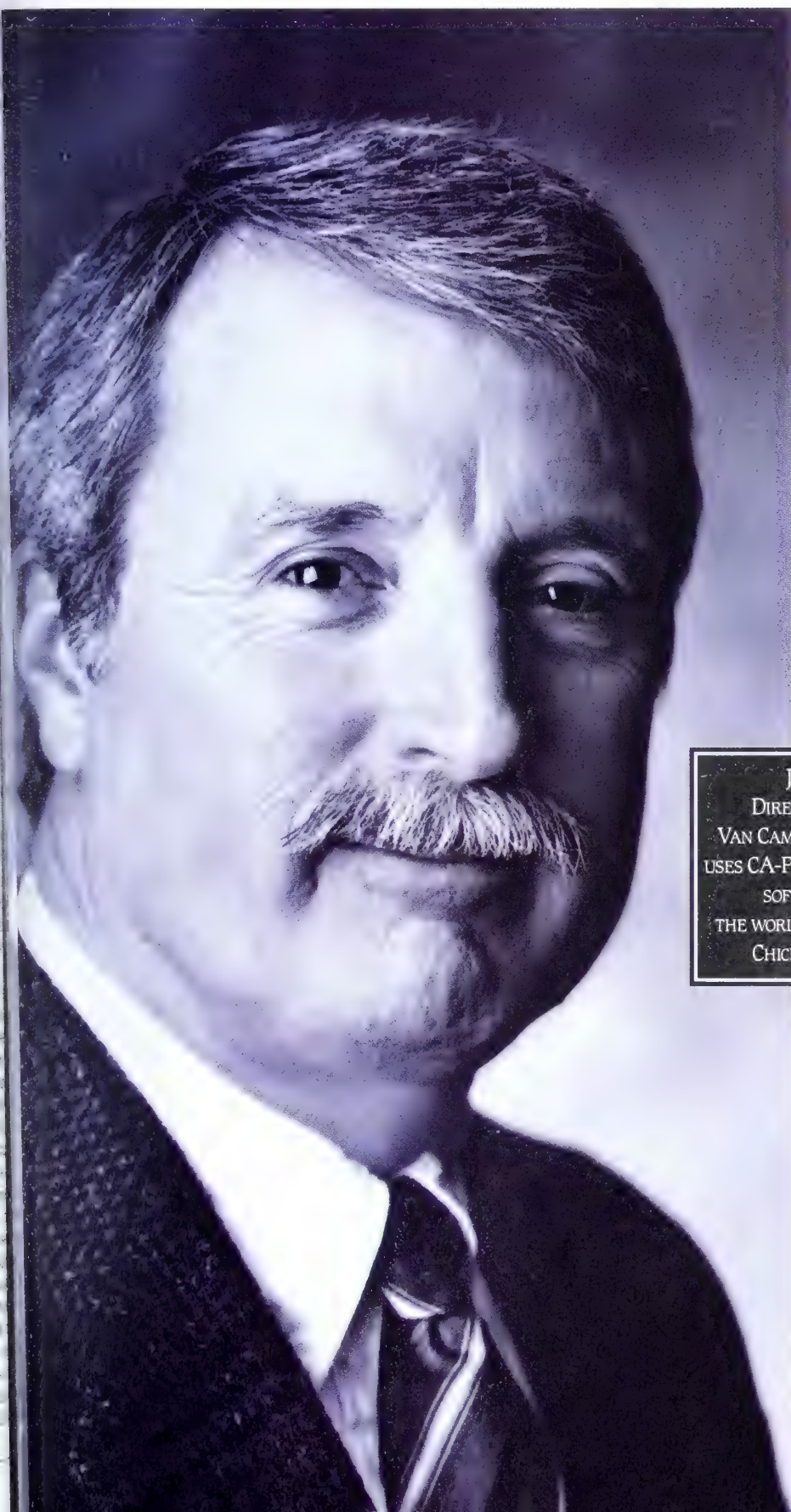
Doomsayers see the decline in mortgage lending persisting for years, because millions of homeowners with adjustable-rate loans will be compelled to stay in their homes for a long time. The market may be extremely tight, even the more conservative forecasters see times ahead. Most mortgage bankers who last year had their phones ringing off the hook are now too soon to be twiddling their thumbs—only out job applications.

By Kelley Holsinger
New York

END OF THE REFINANCING BOOM?



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Commentary/by Michael Schroeder

WALL STREET SHOULD STOP PLAYING THE BULLY

Six years ago, the Supreme Court handed down a decision that Wall Street thought was a major victory. Instead of allowing investors to take their broker to court, the high court ruled that investors are bound by the standard brokerage-account contract, which requires complaints to be resolved through arbitration. The industry figured that dealing with such spat out of court would be quicker and cheaper—and reduce the possibility of astronomical awards by jurors sympathetic to individual investors.

But arbitration has turned out to be anything but fast and simple—or cheap for Wall Street. The National Association of Securities Dealers, which handles more than 80% of these disputes, says complaints have soared more than 320%

since the 1987 court ruling, to 5,200 cases in 1993—a 23% jump in the last year alone. Both sides now come armed with lawyers and fight over access to documents. Hearings drag on nearly three days on average, more than double their length before 1987. And in about 5% of the cases, firms even have to shell out punitive damages. Between 1989 and last year, the industry ponied up more than \$200 million to disgruntled investors. “Something has to be done,” declares Deborah Masucci, the NASD’s vice-president for arbitration.

LOSING TWICE. Terrified at its growing liability, the industry wants to slap new restrictions on the process—its worst idea since portfolio insurance. The restraints would crimp many customers’ ability to recoup losses from all-too-pervasive abuses, from unauthorized trades to putting customers into inappropriately risky investments.

A recent NASD proposal would force an investor who rejects a brokerage settlement offer to pay the firm’s attorney fees if the ultimate arbitration award is less than the original settlement offer. The rule would apply to

claims exceeding \$250,000, about 30% of all cases. Comments to the Securities & Exchange Commission are due on the proposal by Dec. 10, and it’s already generated a scathing reaction.

Such a rule, critics say, would put intense pressure on investors to settle. Richard P. Ryder, publisher of the *Securities Arbitration Commentator*, reviewed 8,000 claims and calculates that brokerages’ average legal fees were

industry ties. Making matters worse, brokers have all the records, and defense lawyers often stonewall requests for the information. The process has become dominated by “scorched earth tactics,” says J. Boyd Page, an Atlanta attorney. The result: An investor filing a claim can expect on average to undergo about a year of wrangling with the brokerage firm.

William J. Fitzpatrick, general counsel to the Securities Industry Association, claims investors are not at a disadvantage. He says that from the start they know what they’ve lost and what would constitute a fair settlement. Even if that’s true, the industry’s solution is the wrong one. Securities firms already have a serious public-image problem. Consider such recurring headline-making industry scandals:



\$46,900. The fear of having to cover huge legal bills “would unfairly coerce investors, who have already lost their life savings in many cases, into accepting a brokerage firm’s lowball offer,” complains Diane A. Nygaard, an Overland Park (Kan.) investors’ attorney.

The other brainstorm—from the Securities Industry Conference on Arbitration—is aimed at smaller claims. SICA wants to bar investors from getting assistance from anyone who isn’t a lawyer. That would shut down several nonattorney arbitration firms around the country that are willing to help investors whose claims are too small for lawyers’ tastes.

These proposals, in short, would add a new element of unfairness to a system that already tilts toward brokers. For starters, arbitrators usually have

penny-stock scams and widespread abuses involving Prudential Securities Inc.’s \$8 billion worth of limited partnerships. New rules that make it harder for customers to feel they can get justice will only aggravate matters.

CHURNING. The industry’s proposals simply amount to a more efficient shovel brigade for the elephant parade. Instead, the industry should work at the front end to prevent abuses in the first place. That may require an overhaul of a compensation system that encourages brokers to churn customers’ accounts to generate commissions. SEC Chairman Arthur Levitt Jr. advocates a pay scheme linked more to the quality of service brokers provide. “I’d like to see brokers compensated more highly for such things as training, longevity, and overall performance of customer accounts,” he says.

Wall Streeters got what they wanted six years ago, and it proved disappointing. The SEC might think twice before granting the industry its wish this time.

An investor filing a claim can expect to undergo about a year of wrangling

Schroeder covers the SEC for BUSINESS WEEK’s Washington Bureau

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BY GENE G. MARCIAL

IS THE TIME NOW RIPE TO BITE INTO FIGGIE?

When Figgie International in late October reported a third-quarter loss of 80¢ a share—its first quarterly loss in 25 years—even those who expected bad news were shocked. Then Figgie slashed its dividend in half and, not surprisingly, the stock took a whacking—down to 13 a share from 21 early in the year. While many pros are bearish on the company, a small group of value investors says now is the time to buy.

Figgie is a conglomerate, and the Street hates conglomerates. The company manufactures a wide range of products—from fire extinguishers, bottling equipment, and baggage-handling systems for airports to vacuum cleaners and sports equipment. It also provides services such as insurance and real estate development.

Sure, the Midwest floods damaged its manufacturing plants in Kansas (the company says it will be "back on track" in 1994's first quarter). But what is luring the value investor is the expectation that Figgie will sell off assets in a big way. Whispers are that although no agreements have been reached, company bigwigs have held talks with several investment bankers regarding the sale of certain divisions. No investment bank has been chosen for the task, but a decision is expected by January. A Figgie spokesman declined comment.

PUCKS AND BATS. Chairman and CEO Harry Figgie Jr., who has said publicly that he wants to convert his company from a conglomerate into a "world-class manufacturing company," is determined to shed some assets to streamline operations and generate badly needed funds, argues one big investor. In all these years, Figgie has acquired assets as he built up the company. This will be the first time he will go the other way, notes the investor. In his best-selling book, *Bankruptcy 1995*, Figgie maintains that the government must slash the deficit or face financial collapse.

The betting is that Figgie will start trimming debt by selling the consumer and services units. The consumer operations, which accounted for 24% of earnings and 19% of revenues last

IS FIGGIE OUT OF THE WOODS?



year, makes baseball bats and hockey sticks, Fred Perry sportswear, as well as home fire alarms. The services unit generated 10% of earnings and 5% of revenues.

One money manager notes that the stock is trading way below its book value of \$16 a share. "The stock definitely represents great long-term value," he adds. Analysts figure earnings this year will plunge to 25¢ a share from 1992's \$1.61. Next year, earnings are expected to bounce back, to \$1.65, before any sale of assets.

A SWEET PILL TO SWALLOW

After a sharp fall from 17 in early August to 13 in mid-October, Eckerd has bounced back to 18 on Dec. 8. The fast comeback was spurred in part by Eckerd's impressive third-quarter results. But despite the strong rebound, some pros believe the upswing is far from over. What gives?

Takeover fever. The drug-store chain won't be acquired overnight, but money manager Jim Awad, president of Awad & Associates, believes the ingredients are there that make Eckerd vulnerable to a buyout. Why? The current sentiment for low-cost medicines and increased competition in the industry has fueled a fast consolidation, he observes.

Walgreen and Rite Aid, the nation's two leading drug chains, are looking to increase market share through acquisitions, speculates Awad. And Eckerd, which has been cutting prices below most of its major competitors, has been

gaining market share. "The company is currently trying to cut its debt burden and when it succeeds in deleveraging it will be a perfect target for Walgreen and Rite Aid," says Awad. He figures Eckerd is worth 25 to 30 a share takeover.

Eckerd "trades at a substantial discount to both the industry average and the S&P 400-stock index," Donald Hultgren, a Raymond, James & Associates analyst. The stock is cheap, he figures, based on Eckerd's potential to grow faster than its rivals. He expects earnings of \$1.65 a share this year and \$1.75 next year. Eckerd lost 59¢ in 1992.

PRINCETON DENTAL: SPARKLING SMILE

No one really likes to go to a dentist, but investors who put their money on Princeton Dental Management last year have paid in a pretty penny. Its stock, which initially offered at 4¢ in April, climbed to 15 by early January. Since then it has split 3-for-1 and now at 4, or 12 presplit. The idea, says Terry Gingle, chairman and CEO, is to make Princeton the corporate umbrella for a chain of dental practices.

For most of this year, however, the stock has been sitting in the warm room, and the question is whether there's pain ahead for investors. Not all, says Joe Salvani, president of New York-based Salvani Investments. He believes the stock is undervalued and could double over the next 18 months.

Salvani notes that Princeton is expected to produce revenues in 1993 of \$4 million, up sharply from 1992's \$1 million. But the company, which started with four facilities, has signed letters of intent to acquire eight practices in the Southeast, with total revenues of some \$14 million. It has also agreed to buy a large laboratory in the Midwest generating revenues of \$4 million. For next year, Salvani projects sales of \$20 million and earnings of \$1.5 million, or 20¢ a share. Revenues could hit \$40 million by yearend, he adds.

"Clinton's health-care plan will be a no-lose situation for Princeton because the program envisions a 'minimum health-care standard' that will provide dental coverage," Salvani says. Even dental expenses don't get covered, Salvani thinks Princeton will be fine because dentists aren't benefiting from government reimbursements now



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THE CONTINENT'S WAKE-UP CALL

Facing deregulation, Europe's phone giants race to modernize

Elfriede Badmann knows how bad Europe's phone companies are. She would tell you if she could. But she can't—her phone service has been cut off.

Last summer, Germany's national operator, Deutsche Bundespost Telekom, sent the 78-year-old Essen pensioner a \$10,000 bill for six months of service. Since Badmann's monthly bill had averaged \$35 for the past 18 years, it was clearly a computer error. But DBP Telekom's outdated systems can't produce an itemization of the charges, so she can't rebut them. When the company demanded payment anyway, Badmann, who has diabetes, was forced to cancel service. Telekom then blocked an

emergency beeper her family tried to have installed through a local hospital, pending a downpayment on the phone bill. Telekom's behavior, says neighbor Gabriele Knorr, is "obscene." DBP Telekom denies it should have handled the case differently.

After years of such appalling service, Europe's national telephone monopolies are about to get their comeuppance. Their lagging technologies, surly clerks, and high rates make them sitting ducks as tough, new competition readies to trample the Continent's \$130 billion industry. From AT&T and Sprint to British Telecommunications and Daimler Benz, ambitious rivals are lining up to exploit new technologies and loosening regula-

tions. With the market already unrolled in such fast-growing sectors as cable and mobile-phone services, the European Community last June decided to flood the gates on the remaining monopolies, the industry and deregulate public calls in 1998.

With the clock ticking, the hidebound national monopolies are scrambling to revamp tariffs, cut costs, and modernize their networks and services. But what is needed is a wholesale deconstruction of these state-owned dinosaurs. In many years, they have done more than provide mediocre phone service. They have served as major employers and revenue producers for the governments. But no more. As most of these companies prepare to move to private ownership—starting next year with the Danes, and Italians—demands for more efficient operations will only intensify.

BRUTAL. But it will be agonizingly slow to untangle Europe's telecommunication problems, let alone to enter the Information Superhighway. All Belgians must wait 20 days for phone service, while in Italy phone calls often go dead. And even after price cuts, long-distance rates are still

In a typical case, Rank Xerox's \$45 million annual phone bill in Europe is triple what the company would pay in the U.S. And don't even get about corporate services such as forwarding, tie-lines, and itemized billing across borders. In many areas, they are simply not available.

The backwardness of Europe's telecommunications monopolies is more than just an irritation to users: It stymies the Continent's ability to compete. With telephone use within Europe growing only 12% annually—less than half the rates of the U.S. and Japan—the disparity in service and prices is sapping the Continent's economic vitality. Says Volkswagen's telecommunications systems chief Klaus Zenz: "Without change, European industry 'has no chance to stand up to the U.S. and Japan.'"

The transition to the new order promises to be brutal. Because the state-owned companies—usually known as PTTs for post, telephone, and telegraph—were telecommunications monopolies, they have far too many workers. By the decade's end, some operators across Europe may have to shed as many as one-fifth of a million total employees, tearing up traditional social contracts and forcing drastic changes in operations. But there's no time to dawdle: Corporate executives are already deserting them at their first appearance of competition. "It's a real threat on the horizon if we don't get our acts together fast," says PTT Telecom Netherlands President Ben Verwaayen.

LAKE BUILDING. Europe's monopolies are likely to be even more entrenched than the U.S. breakup of American Telephone & Telegraph Co. in 1984. The seven Baby Bells retained monopolies on local telephone service, even if some of Europe's markets will eventually be competitive. The result: national carriers used to dominating long-distance from local and international satellite to mobile services will be edged apart. In their place will be a jumble of alliances that blur national boundaries. Some national operators may end up as mere holding companies with no various local, mobile, and international services. Already, the Swiss, Swedish, and Spanish PTTs have launched various business services into a joint venture called Unisource.

Even bigger cooperative ventures were announced on Dec. 7 by France Telecom and DBP Telekom. The two will merge their private business and data services, international, and other services by 1995. The new entity makes the daunting force in their combined services, which include about 40% of the Continent's telephone lines and population. With U.S. competitors already eyeing both carriers' revenues, their



EUROPE IS STARTING TO LOOSEN UP THE PHONE LINES

NUMBERS RANK DEGREE OF COMMERCIAL FREEDOM EACH PTT IS ALLOWED, WITH 1 AS MOST REGULATED, 10 AS LEAST REGULATED

FRANCE

► **FRANCE TELECOM** and **DEUTSCHE BUNDESPOST TELEKOM** plan to merge data, international calling, and other services

► Privately owned **CGE** to provide residential phone service using new radio technology, posing first local threat to France Telecom

GERMANY

► Privatization of **DBP TELEKOM** to start in 1996; new competitors form, targeting liberalized corporate services

► Private carrier **MANNESMANN MOBILFUNK** takes 50% of cellular mobile market

BRITAIN

► Cable-TV companies, **CABLE & WIRELESS**, **AT&T**, **SPRINT**, and others expect to win 20% market share from **BRITISH TELECOM** by 1995

► **BRITISH TELECOM** slashes calling charges and conducts a massive restructuring

ITALY

► Fragmented public telecom sector to consolidate in 1994 into a single operator as a prelude to privatization

► **PTT** plans a multimedia joint venture with **BELL ATLANTIC**

SPAIN

► **BRITISH TELECOM**, **AT&T**, and **FRANCE TELECOM** stake out local banks as partners to attack **TELEFONICA**'s data network business

► First competing licenses for mobile and data networks scheduled for 1994

BELGIUM

► National carrier **BELGACOM** agrees to sell 25% of mobile network to San Francisco-based **PACIFIC TELESIS**

► **BELGACOM** cuts international calling rates up to 15% starting January, 1994

DATA: YANKEE GROUP EUROPE, BUSINESS WEEK

run-for-cover strategy is hard to miss. "If AT&T is let loose in Europe unchecked, no eye will remain dry," says German telecommunications minister Wolfgang Bötsch. In fact, the new couple is negotiating anxiously to enlist AT&T as a partner in Europe, rather than risk competing against it.

Even without a pact with AT&T, the Franco-German accord had competitors howling charges of antitrust, followed by appeals to Brussels to block it. "We've seen the shape of the beast, and it's pretty horrendous," says Iain D. Vallance, chairman of British Telecommunications PLC. Ironically, his own \$4.3 billion alliance last June with MCI Communications Corp. to capture multinational clients helped trigger his neighbors' defensiveness. At the least, the EC is expected to clamp conditions on the Franco-German deal.

If the French and Germans can reach an accord, the next four years will be critical to patching together dramatically different network technologies, rates, and organizations. The EC decision to postpone competition for public voice services until 1998 gave them breathing room. Indeed, the European PTTs' combined market share of 95% in 1992, says market researcher Yankee Group Europe, will fall only to 86% of a \$175 billion market by 1997.

INCHING AHEAD. But even as the Europeans run to catch up in basic services, U.S. operators are amassing a long lead in the next generation of communications. The billions that they're spending on the Information Superhighway at home will put them a long way ahead in interactive shopping, video on demand, and other services—all of which can later be deployed in Europe. The Continent's operators, meanwhile, are just starting tests to exchange picture and data signals among their incompatible networks.

Until now, they had little incentive to change. No aggressive cable-TV outfits are prodding them, as they did in the U.S. On the contrary, local phone monopolies control most of the cable systems. And no major European country except Britain and Sweden allows telecom competitors to own their infrastructure. Instead, they lease lines from the PTTs and live with usurious rates and other tactics that impede competition.

Some governments, however, are inching ahead. Last summer, the Dutch allowed a rival consortium to initiate service in 1995. And France in September permitted a large water utility company to install a radio-transmission system outside Paris to deliver local telephone calls to France Telecom customers—the first competition for a Continental operator's core residential market. "We must have new actors investing in

Information Processing

new technologies," observes Bruno Las-serre, France's telecom regulator.

He need only look across the chan-nel to see the benefits. Since 1991, when Britain started licensing newcomers—30 so far—the island has been abuzz with new phone companies, from local ser-vices running over radio waves and cab-le-TV lines to international connections via satellite. Energis, owned by local electric utilities, has limited costs for its 720-mile fiber-optic network so far to a mere \$150 million by piggybacking lines on its parents' utility pylons. That will allow it to offer cheap long-distance calls and multimedia services.

But the implications of deregulation go far beyond technol-ogy. PTTs, flush with monopoly profits, have long provided politicians with cash to fund ambi-tious industrial policies, from propping up Span-ish switchmaker Amper and French computer maker Groupe Bull to re-tooling eastern Germa-ny. But after the final payoff from privatiza-tions—proceeds could reach \$45 billion over the next three years alone—that source will dry up.

EXPLOSIVE. Along the way, the job-creation tra-dition of some of Eu-rope's most enduring in-stitutions is sure to unravel. To match the lower costs of rivals us-ing modern labor-saving equipment, at least 30,000 jobs each at Italy's STET and France Telecom are at risk in the next few years. Analysts say DBP Telekom eventually needs to halve its 230,000 staff—not unlike British Tele-com, which is midway through a seven-year plan to slash its peak of 245,000 workers by 55% by 1997.

That politically explosive prescription comes on top of a European unemploy-ment rate that is already averaging 11%. In many countries, executives are hog-tied by civil-service codes that guaran-tee lifetime employment, regular pro-motions, and other perks. In mid-October, 75% of France Telecom's 155,000 workers went on a one-day strike demanding that the government rescind legislation allowing it to swap equity with DBP Telekom and to seal the Franco-German alliance. Fearing for workers' benefits, the unions called for further walkouts in January. If France Telecom Chief Executive Marcel Roulet is unable to accommodate the labor

unions, they may move to undo the alli-ance by 1995.

Likewise, Chancellor Helmut Kohl's government, facing elections next year, caved in to demands by union-backed Social Democrats in October to hold off more market-opening measures that threaten DBP Telekom. In return, the government won approval for the privat-ization of Telekom, which is \$60 billion in debt.

Meanwhile, the PTTs are easy targets. Last year, for example, IBM, Sprint, AT&T, General Electric Information Ser-vices, and other outsiders absorbed 34% of the \$3 billion high-growth market for data-transmission services, up from 23%

meanwhile, has already nabbed con-trol to manage services for Unile-ver, Reuters, and others.

PTTs are fighting the drain of busi-ness to private networks by cuttin-g international charges—as much as 60% the past two years. But rivals are exploit-ing open regulatory loopholes. The 10-year-old Viatel Ltd. in New York, largely owned by moneyman George Soros, has invested \$50 million this year in a network to carry calls around Europe. Such companies as Sanyo Electric and Trans World Airlines Inc. The work fits within a fuzzy EC excep-tion allowing competition for telephone services between client companies and their

providers. And Sprint has stalled a switch in Europe through which U.S. companies send calls over leased lines to the Continent to the U.S. or back to Europe. Billed at low British rates, the arrangement is cheaper than calls that are dialed direct through local PTTs.

BALANCING ACT. To survive, PTTs will have to slash prices. For decades, they have subsidized cheap local services by overcharging on long-distance and international calls. As telephone rates come down, callers are watching local charges soar this year—by 39% in Italy and 400% in Ireland. Investment needs are



U.S. COMPANIES ARE MAKING BIG STRIDES IN EUROPE'S DATA-TRANSMISSION MARKET. SPRINT LINKS THIS PARIS SHOWROOM TO A GLOBAL NETWORK

in 1991, says market researcher Ovum Ltd. In the process, they're building networks of lines leased from the PTTs, readying for the day they can attack core phone customers.

Abetted by the alliance of BT and MCI, the Unisource combo, and the Franco-German accord, battles are already breaking out over contracts for corporations' interoffice phone and data networks. Cross-border corporate traffic, a \$3.5 billion market where tariffs are high, is especially vulnerable. European phone operators were unnerved earlier this year when AT&T announced plans to erect a \$350 million pan-European network for business calls. Sprint,

urgent. Operators in France, Sweden, and the Netherlands have already been modernized. But those of Germany, Italy, and Spain trail in cost-saving. Italy switches and fiber-optic cables.

As the telephone giants wrestle with such problems, Europe's regulators must balance a bewildering set of policies. While safeguarding affordable services, they must approve tough tariff-balancing measures that will drive up local rates. And although they may be tempted to postpone further liberalization, the regulators would risk putting off hard decisions such as job cuts until it's too late.

An open market won't come without considerable pain. But the benefits will bring to Europe's competitiveness. Not to mention consumers such as Rüdiger Badmann, should more than make up for that.

By Jonathan B. Levine in Paris, Jonathan Gail E. Schares in Bonn, Julia Flynn in London, John R. Badmann in Rome, and bureau reports

At least 30,000 jobs each at Italy's STET and France Telecom may be lost

capability: executive programs

LEADING THROUGH



Illustration by Robert Neubecker. *Association of Business Week, August 1993*



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A NEW LEASE ON LIFE FOR OLD-FASHIONED CHIPS

A Bell Labs rookie's idea radically speeds up silicon chips

Ran-Hong Yan won't forget the day after Christmas in 1990. He had seen snow atop distant mountains in his native Taiwan, but he still wasn't prepared for the powdery flakes drifting down outside his Aberdeen (N.J.) apartment. He and his wife, Jennifer, dashed outside to marvel at their designs. "It was enchanting," he recalls. So much so that Yan, then 28 and a rookie on the semiconductor research staff at AT&T Bell Laboratories, called in late so he could help his daughter, Rose, build her first snowman.

After hanging up, he watched snow blanketing the tops of cars without sticking to their sides, and something clicked: Yan found himself envisioning a miniature snowfall of boron atoms piling up inside silicon wafers. It was an idea that would dramatically alter the outlook for silicon microchips.

QUICK FREEZE. On Dec. 6, one of Yan's co-workers, Kwong F. Lee, explained exactly how to the International Electron Device Meeting (IEDM) in Washington. Lee reported that the "snowfall" concept transforms complementary metal-on-silicon (CMOS) transistors—the most common switch, and heretofore a relative slowpoke—into the sleekest silicon speedsters ever. In fact, Yan's technique triples the speed of CMOS devices to at least 116 gigahertz, or billions of on/off cycles per second. Even at room temperature, such transistors are 30% faster than similar devices cooled with liquid nitrogen, a turbocharger for chips.

Group these transistors in an integrated circuit, and the gains can be even more startling. For example, Bell Labs has made a so-called frequency-divider chip similar to those used to change channels in communications gear. Before Yan's work, "the best number for a frequency divider was 2.6 gigahertz," says Abbas Ourmazd, head of microphysics



BRAINSTORM: SNOWFALL INSPIRED YAN'S "VERTICAL DOPING"

research at the lab. "We've measured ours at nearly 14 gigahertz." Bell Labs won't speculate on how much the new technique, called vertical doping engineering (VDE), will speed up microprocessors. But it seems to confirm predictions by Intel Corp. and Digital Equipment Corp. that personal computer speeds will triple by the year 2000.

More important, silicon chips will drive ever faster electronics systems long past the turn of the century. Until now, indications were that silicon would hit redline speeds by 2000. To tweak more performance from chips without installing costly refrigeration even in PCs, chip companies might have had to make an expensive switch to a faster material, such as gallium arsenide. But VDE postpones that. "We see clear sailing

for at least 20 years," asserts Mark Liar-Smith, chief technical officer of Microelectronics, American Telephone and Telegraph Co.'s chipmaking arm.

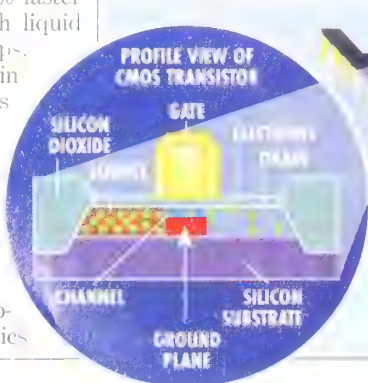
He isn't the only optimist. In 1991, when Bell Labs turned a crew of 16 scientists loose on Yan's idea, news spread to the tight circle of researchers who hone the cutting-edge semiconductor technology. That pre-

similar work among Japanese chip makers such as NEC, Hitachi, Fujitsu, and some others also popped up at the Washington meeting. Perhaps the most impressive is Toshiba Corp. Its scientists have made the world's smallest CMOS transistor, a 0.1-micron wide—one-tenth the size of the smallest transistor now heading into volume production.

EVER TINIERS. Further advances may be possible. Last year's IEDM, IBM researchers said they had wrapped up a probe to the frontiers of transistor physics. Using Damocles, a computer program developed by Thomas N. Theis, mat-

ing semiconductor physics research describes as "the world's most sophisticated model" of solid-state microdevices, IBM found what may be the ultimate size for silicon transistors. "Before we did this study," says Theis, "0.1 micron was widely accepted as the physical limit. Now, it's 300 angstroms—just 0.03 micron. IBM's ultramini models are VDE designs. But computer simulations at Bell Labs suggest that VDE, which has already helped create chips with 0.1-micron transistors that the industry expects to produce commercially as early as 2010, might get down to 0.03 micron too. It would take 3,000 such devices laid side by side, to equal the diameter of a human hair.

The innovation that boosts silicon longevity is an elegantly simple



SILICON GETS SUPERCHARGED

PROBLEM The key to faster chips is to narrow the silicon channel through which electrons flow when a transistor switches on. However, as the channel gets narrower, electrons tend to leak across when they aren't supposed to. Raising the resistance in the channel by doping it with boron atoms prevents this. But then it takes more power to push the electrons across, and the extra power and resistance would produce enough heat to ruin the chip.

o the structure of CMOS transis-
diagram). What Yan envisioned
nowy day is a plug that fills up
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an "on" signal arrives at the gate.
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roasts an uncooled chip. Vertical
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ss likely, less resistance is needed
y the transistor turned off—and a
channel is possible.

secret to VDE is driving boron
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TRUTH. Why has such a common-
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Burmazd thought Yan might bring
perspective to silicon's dilemma.
never dreamed his hunch would
so handsomely so soon.

*His Port in New York, with bu-
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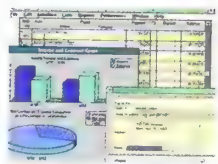


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Developments to Watch

BY RUTH COXETER

GLASS ACT PERIODONTISTS



A boxer with a "glass jaw" is considered an easy knockout. But putting glass in the jaw may soon keep teeth from falling out. Last month, the Food & Drug Administration approved the use of a glass compound called Perioglas to fill gum pockets formed by periodontal disease. Perioglas is a granulated form of Bioglass, which the FDA earlier ap-

proved to replace middle-ear bones and tooth roots. University of Maryland engineer Larry Hench dreamed up Bioglass in 1969 and licensed it to US Biomaterials in Timonium, Md. An oral surgeon would pack Perioglas around a clean tooth and then suture gum tissue over it. Perioglas is made of silicon and glass as well as the ingredients of natural bone: calcium and phosphorus. It appears to help regenerate bone and restore the structure that holds teeth in place. Since the glass binds with surrounding soft tissue, harmful epithelial tissue can't grow and separate ligaments and bone from the tooth. Animal experiments show that the glass might also carry growth factors to speed rebuilding of bone.

CE 'N' DICE BROCCOLI, VOILA! SUPERSTRONG PLASTIC

Broccoli, cabbage, and cauliflower are famed for fighting cancer. Their latest feat: Researchers say adding their genes to another family member, rapeseed, could yield a seed rich in erucic acid that could be used in forming superplastics and high-performance lubricants. Today's rapeseed yields at best 66% erucic acid, which makes it expensive to purify. Adding genes from cruciferous vegetables such as broccoli could result in oils with more than 90% erucic acid, says Norman Sonntag, a Dallas consultant on oil-based chemicals. There are more than 1,000 patented uses for high-acid oils and their derivatives.

The research was conducted by the National Research Council of Canada's Plant Biotechnology Institute, working with the universities of Manitoba and Saskatchewan. Researchers there say that future products might include a high-temperature lubricant, an agent to keep plastic film from sticking to itself, and a tough, nylon-based plastic that might be used for car parts.

UNDERWRITERS LABS' SEAL OF APPROVAL

Putting safety into product design and manufacturing is paying off for Samsung Electronics America Inc. This week it announced that it had become the first company certified by Underwriters Laboratories Inc. for a streamlined safety certification program. UL staff trained employees of the company's parent, Korea's Samsung Electronics Co., in how to incorporate UL's safety-evaluation steps into Sam-

sung's design and manufacturing of microwave ovens, radios, televisions, and other products. That should let the company win more rapid approval for the UL Mark, an emblem of product safety. John Garrison, marketing vice-president for the Ridgefield Park (N.J.) unit, estimates that it could cut the design-to-ship time for products by two to four months.

Underwriters Laboratories, a nonprofit organization based in Northbrook, Ill., says lots of other companies are seeking to participate in its Total Certification Program. But compliance is costly and usually comes only after a company has met the quality standards of the International Standards Organization's ISO 9000 program. Among the applicants, UL says, are makers of lighting, power controls, phone gear, appliances, and fire-suppression products.

CRIB SHEETS FOR FOLKS SWAMPED WITH DATA

Electronic data bases place the world at your fingertips. Trouble is, even a 15-minute search can leave you digging for hours through the documents you have downloaded into your computer. The touted Information Superhighway could make things worse: Wayfarers are likely to get buried in a multimedia blizzard.

To help sift through the avalanche, researchers at Toshiba Corp. have created a text-retrieval system that they say can digest long documents and produce abstracts of them in simple, grammatical Japanese sentences. If the abstract is inadequate, a customer could tell the system to redo it and, for example, request more technical details or market statistics.

Toshiba researchers figure it will take two more years to commercialize the system, which runs on a Unix-based workstation. First, they must teach the system to search for complete sentences, rather than just key words. Second, they need to speed up document analysis, which can take hours of computing time. Finally, they need to convert the software to English, since the vast majority of the world's data-base customers reside in the U.S., not in Japan.

SHEDDING A TINY LIGHT ON HEAD INJURIES

A sensor no bigger than Abraham Lincoln's eye on a penny has been developed by InnerSpace Medical in Irvine, Calif., to measure pressure within the brains of head-trauma victims. The sensor consists of a silicon disk and a shallow glass cup that reflect light back up an optical fiber. A minute change in pressure increases the disk and cup together, changing the color of light that they reflect. An outside monitor reads the color change as a change in pressure.



InnerSpace says its flexible catheter can be snaked into the brain in a way that runs a lower risk of infection than stiffer catheters. It could also be used by orthopedic surgeons to monitor rising pressure in injured muscles, which can cause tissue damage. President Donald E. Bobo says InnerSpace has received FDA clearance to market the brain catheter and plans to release it early next year.

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Three who make a difference. Announcing the 1993 winners of the McGraw Prize in Education.



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Each year, up to three \$25,000 prizes are awarded to people who have made a difference in education.

For 1993, the Board of Judges selected these three individuals for distinguished contributions to the advancement of education.

**Sister Mary Brian Costello,
R.S.M.**



As Superintendent of Schools for the Archdiocese of Chicago, the largest private school system in the world, Sister Mary Brian Costello, R.S.M., gained national attention as a powerful voice for inner-city education.

Her concern for economically disadvantaged children

led Sister Mary Brian to establish summer learning centers in the heart of the city's poorest areas to provide them with special educational opportunities. She also helped develop innovative learning programs for preschoolers as well as for exceptional children and those learning-disabled or handicapped by economic condition or circumstance.

Sister Mary Brian is currently serving as Chief of Staff for the Archdiocese, where, in keeping with her life-long commitment to education, she has provided leadership for Big Shoulders, the Archdiocese's ambitious program to assist and strengthen parochial schools of the inner city.

Sharon Darling



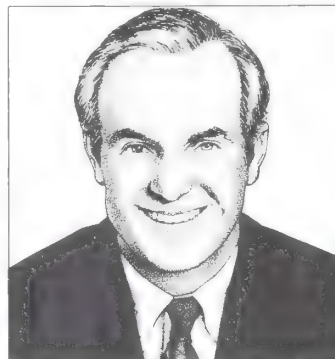
Adult illiteracy cripples many efforts to educate disadvantaged youngsters, fueling a seemingly endless cycle of undereducation, unemployment and poverty.

With a lifetime of work in the field of literacy, Sharon Darling developed a model that breaks the intergenerational grasp of illiteracy and poverty by bringing undereducated parents and children to school to learn together. Her imaginative approach has given thousands of families new confidence, hope and self-esteem.

To assist educators and policymakers in developing and funding family literacy efforts, Ms. Darling established the National Center for Family Literacy in Louisville, Kentucky. The

Center has successfully spread her innovative ideas throughout the country, providing opportunities for parents to improve their own lives as well as the lives of their children.

Booth Gardner



Education is at the very center of Booth Gardner's agenda. As Governor of the State of Washington for eight years, he successfully introduced reforms which improved education throughout the state.

Stemming from his belief that all children can and should learn at higher levels, Governor Gardner helped develop an innovative system of results-based education programs that significantly raised academic achievement standards for all students, lowered dropout rates, provided greater flexibility for students to learn, elevated standards for educators and fully funded early childhood education.

At the national level, Governor Gardner shares his devotion to education reform with leaders from across the country, through the programs he developed in his home state and as former chairman of both the National Governors Association and the Education Commission of the States.

For more information, write to The Harold W. McGraw, Jr. Prize in Education, McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY 10020.



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CAN REEBOK REGAIN ITS BALANCE?

It has been flailing wildly, but a new marketing push may help

Last January, Reebok International Ltd. launched a sneaker that it hoped would be a slam-dunk. Called the Shaq Attaq, it was endorsed by the Orlando Magic's sensational rookie Shaquille O'Neal. And it seemed tailor-made for teens. But the Shaq Attaq arrived in stores with a resounding thud. The problems: The sneakers were white, with light blue trim. And they cost \$130. But black shoes were the hot look, and

But now, Reebok Chief Executive Officer Paul Fireman says he has finally found a cure for his company's longstanding ailments. His strategy: attack Nike's jugular, the performance athletic-shoe market. Reebok plans to introduce dozens of new sneakers, including the next generation of Reebok's legendary Pump. Dubbed the Instapump, this high-tech sneaker has no laces. Instead, it's inflated with CO₂ cartridges to fit the

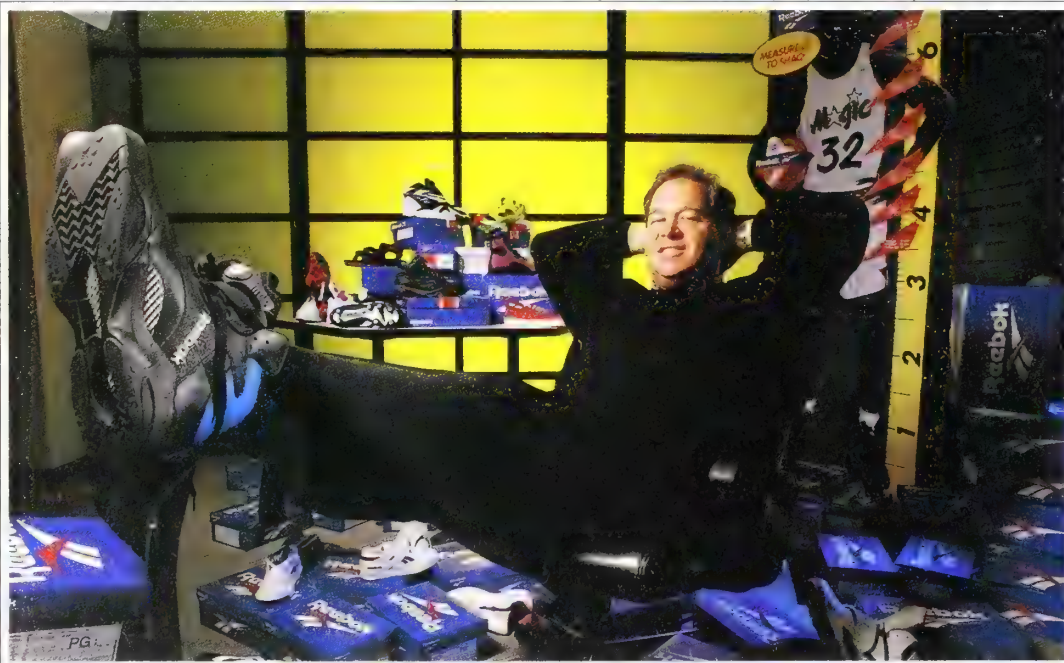
through it that Reebok hopes consumers will identify with high performance. "We'll be the market leader by the end of 1995," Fireman vows, "or at least have the pace to be the leader soon after."

Still, many Reebok-watchers are skeptical. "It's not a doable feat," says D. Ennals, Reebok's former marketing chief and now an executive at Quaker Inc. The doubters point out that the sneaker market's days of big sales growth are behind it. They say that Reebok's new line of pricey sneakers—the Instapump will retail for \$130—seems out of step in an increasingly budget-conscious market. "It's pretty expensive and probably a little too catered for most people," says Conco's Chairman Gilbert Ford.

And there's Nike to worry about. With 21.5% of the U.S. athletic shoe market, Reebok lags way behind Nike's 32%. And Nike isn't standing still. Last year, it took direct aim at Reebok's in-ance in the fitness market by launching a line of athletic shoes. "They have worked out for us," says a Nike spokesman.

Even so, analysts believe Reebok has to build up new momentum to keep pace with Nike. In 1992, Peabody & Co. analyst Gary M. Jacobson said Reebok's profits should climb 7% next year to \$241 million, as its sales hit \$3.1 billion, versus \$2.9 billion. By contrast, Nike's profits could fall 9%, to \$2.1 billion, as its sales fall 2%, to \$3.8 billion, because of the weakness in the high end of the sneaker market.

CHANGES. That's clearly encouraging to Fireman, who argues that Reebok is a different company these days. The big part of Reebok's



CEO FIREMAN IS GOING FOR NIKE'S THROAT WITH HIGH-PERFORMANCE SNEAKERS AND OUTDOOR SHOES

customers wanted them for under \$100. In the first six months of 1993, sales of Reebok's basketball shoes fell 20%. Says Reebok fitness President Angel Martinez of the Shaq Attaq launch: "It was a comedy of errors."

It was also vintage Reebok. Ever since Nike Inc. usurped the company as the top maker of athletic shoes in 1989, Reebok has been flailing wildly in attempts to get back on top. Half a dozen ad campaigns have fizzled. It has been plagued by poor designs. And it missed a key fashion shift toward outdoor shoes that began a couple of years ago.

foot. At the same time, Fireman is now pushing Reebok into the fast-growing outdoor-shoe business.

Reebok also means to overhaul what Fireman acknowledges has been until now a "chaotic" marketing effort. After eschewing Nike-style hero-worship advertising for years, Reebok has done an about-face. Signing O'Neal last year was a start. Now, Reebok is closing endorsement deals with some 400 football, baseball, and soccer stars. And to boost its image, it has also come up with a brand-new logo that will appear on many of its new shoes—an inverted "v" with a slash

problems, he says, had to do with consistent leadership. At the time, urging, Fireman gave up day-to-day operations in 1987. With Reebok growing so fast, directors felt they needed an executive who had experience running a big company. Fireman, who purchased Reebok in 1984 and still owns 9% of the company's stock, didn't object. He retained the titles of chairman and went off to pursue several other ventures, including building a new house on Cape Cod.

But the change in leadership helped Reebok. It went through the

at top managers. Last was John H. den, a former X Corp. executive. continued to lose against Nike. So an came back in st, 1992. He wast time in shaking management. Withys, he reassigned den to head Reebok's international on. Next, he hired r Pony Sports & owner and CEO to Muller to head k's sports division. s's former compa-

cialized in high-performance cleat- es for athletes.

W, with a new management team in place, Fireman believes it's or a new-product blitz. The center- of the attack on Nike is basketball. share of the basketball sneaker t is nearly 50%, compared with 5% for Reebok. But since Michael retired from the National Basket- ssn., Jordan's O'Neal has become ar favorite to be the next endur- perstar—and marketing machine. success has become their alba- Fireman crows. "Jordan is no on the radar screen." Nike begs er: The company says Jordan's ing appeal remains strong, and ew Jordan ads in January.

ook intends to step up the pres- Nike at the NBA All-Star game uary, where it will launch a na- ad campaign for its Instapump. n says he expects the sneaker to t for 10% of Reebok's sales in ears. Retailers who are test-mar- early models are encouraged. love to try them on, and most who do buy them," says Jennifer h, assistant manager of Olympia Center in Cambridge, Mass.

Reebok is launching an assault on Nike stronghold: the \$250 mil- ket for cleated shoes, about 80% h are sold by Nike. Fireman new line of cleated shoes Ree- nched last January will catch on gh-school athletes. If so, he reck- es could triple in 1994, to \$45 Next year, Fireman plans to of- new outdoor hiking and moun- ing shoes, which he hopes will e \$100 million in sales. Jaron M. , head buyer for Larry's Stan- ands Shoes Inc., a men's shoe

Fort Worth, has ordered most ne for his stores but says they're aranteed success. "There's other s for equal money or less that erior," he says. Still, he says s Cliffhanger shoe is a probable

REEBOK BETS ON NEW PRODUCTS...

SPORTS Reebok this year introduced its first cleated shoes for football, baseball, and soccer. New Shaq Attaq shoes are planned next year, including the InstaPump sneaker.

OUTDOORS Company plans to offer hiking and mountain-biking shoes for 1994, including a hiking shoe made of recycled materials to appeal to environmentally conscious customers.

CASUAL Reebok unveiled new casual footwear this year to appeal to younger Generation Xers instead of yuppies.

...TO NARROW NIKE'S LEAD



DATA: BUSINESS WEEK, KIDDER, PEARODY INC., SPORTING GOODS INTELLIGENCE

hit. "It's a street shoe with a look," he says—a shoe salesman's highest praise.

Fireman isn't just depending on good looks to sell his footwear. Endorsements will help, he says. In addition to O'Neal, Instapumps are already being used by such players as Dallas Cowboys running back Emmitt Smith and the Notre Dame football team. Moreover, Fireman says

Fireman's plans are ambitious. And considering the Shaq Attaq launch and other Reebok blunders, his chances of recapturing first place may seem slim. But then again, faced with a fierce race in the sneaker market, Reebok can't afford to be running in place forever.

By Geoffrey Smith in Stoughton, Mass., with Mark Maremont in Boston

STRATEGIES

UTC GETS A LIFT FROM ITS SMALLER ENGINES

Its other divisions are offsetting the drag from Pratt & Whitney

The past two years have been a nightmare for United Technologies Corp. Chief Executive Officer Robert F. Daniell. Largely because of the downturn at Pratt & Whitney, UTC's embattled aircraft-engine maker, the 60-year-old, soft-spoken former helicopter mechanic has seen his company spew \$1.3 billion in red ink since 1991. And he has laid off more than 23,000 employees, 12% of his work force.

But the steady dose of disappointing news at Pratt & Whitney, which has been severely wounded by spending cutbacks by the airlines and the military, has overshadowed significant operating improvements elsewhere at the sprawling Hartford conglomerate (chart, page 110). A two-year plan to slash costs, modernize manufacturing operations, introduce new products, and push for new markets abroad is finally starting to re-

vive UTC's smaller units: Carrier air-conditioning, Otis Elevator, the automotive-parts division, and Flight Systems, which includes Sikorsky helicopter. "This company is really two companies," says Daniell. "The other part of it is doing rather well."

And since the part that's doing well is hefty enough to outweigh the financial drag from the part that isn't, the overall



TURKEY HAS ORDERED 95 SIKORSKY CHOPPERS—FOR \$1 BILLION

The Corporation

outlook for UTC is getting brighter. Analyst Michael Lauer at Kidder, Peabody & Co. estimates that UTC's operating income could climb 20%, to \$1.7 billion, in 1994 as revenues rise 6%, to \$22.4 billion. But only 21% of next year's operating income will come from Pratt & Whitney, UTC's biggest unit in terms of sales, down from two-thirds in 1990. Even better for shareholders, UTC is no longer the pariah it once was on Wall Street. Its shares have climbed 29% since the start of the year, to 62.

That represents quite a shift in the common perception of UTC—and of Daniell, who became CEO in 1986. UTC's chief has taken a lot of heat over the past couple of years for failing to revive Pratt & Whitney despite sweeping restructurings in 1992 and 1993. Periodically, some analysts have questioned whether he should keep his job.

Daniell ought to be used to criticism by now, though. For years, UTC has been grappling with one problem or another. As recently as 1990, Pratt & Whitney was humming, courtesy of a backlog of orders from the Reagan arms buildup. But UTC's other units were smarting. Carrier Corp. was stuck with an old product line. Otis Elevator Co. stalled as commercial construction ground to a halt.

And UTC's automotive-parts business nosedived when new-car sales tumbled. **RAPID-FIRE TEAMS.** To revive those units, Daniell embarked on a broad strategy of cost-cutting, revamped production, and new products. Some of the deepest cost cuts came at Carrier, which slashed some 2,900 blue-collar and middle-management jobs, or 10% of its payroll. Painful as they were, the cuts have helped Carrier reduce its overhead by 12% since 1991. Thanks to such savings at Carrier and elsewhere, UTC's operating margins are expected to improve to 7.4% in 1994 from this year's 6.6%.

UTC has also modernized manufacturing techniques. Otis, Carrier, and Sikorsky have all abandoned standard assembly-line production in favor of worker teams that put products together from start to finish. By giving workers more responsibility, the company says it has

reduced mistakes and eliminated downtime, which used to be common as workers waited for products to move down the line. Workers at the Otis plant in Gien, France, for example, can now turn out the top-selling Europa 2000 elevator in five days instead of the five weeks it took in 1991.

Along with radical changes in manufacturing came an overhaul of UTC's aging product lines. Otis recently introduced an elevator in the highly

next year of any UTC division, up \$2.5 billion, says analyst Nicholas Heymann of NatWest Securities Co.

Just as important to the recovery, UTC's less prominent units have been successful in winning business abroad. Since the collapse of the Berlin Wall, Otis has signed contracts to sell 100,000 elevators in Russia, roughly one-third of the total it services around the world. The conglomerate's other divisions are also scoring big contracts abroad.

In 1993, Turkey placed a \$1 billion order for 100 of Sikorsky's UH-60 Hawk utility helicopters. Foreign sales now account for 55% of UTC's revenues, up from 45% five years ago.

SCARCE PARTS. Despite such success, Daniell has begun to apply the lessons learned at other units to Pratt & Whitney. Last year, he appointed Karl J. Krappe, who oversaw the remaking of Otis Carrier, as president of the aircraft-engineer. Already, Krappe displayed the same tenacity for cost-cutting he showed at his former jobs. Pratt & Whitney's work force is expected to be cut again—this time by as many as 5,000—to fewer than 100 employees.

Still, lots more work has to be done. True, costs and a sharp uptick in orders for

parts mean Pratt & Whitney's profits could hit \$365 million, double this year's weak returns, says Lauer. But new engine orders remain weak. And some of Pratt's customers are unhappy. They say that parts, such as the bolts that hold jet-engine fan blades, have been scarce. "All the airlines have gotten their case," says Joe Nemecek, vice president for ground operations support at Trans World Airlines Inc. Nemecek complained to Pratt's management, and he says, the problem is slowly being fixed.

Even UTC's other units aren't totally out of the woods. Wall Street is waiting to see if they can sustain their earnings momentum beyond 1994. If Daniell can achieve that and fix Pratt alone, the way, the past two years may seem like just a bad dream after all.

By Tim Smart in Hartford

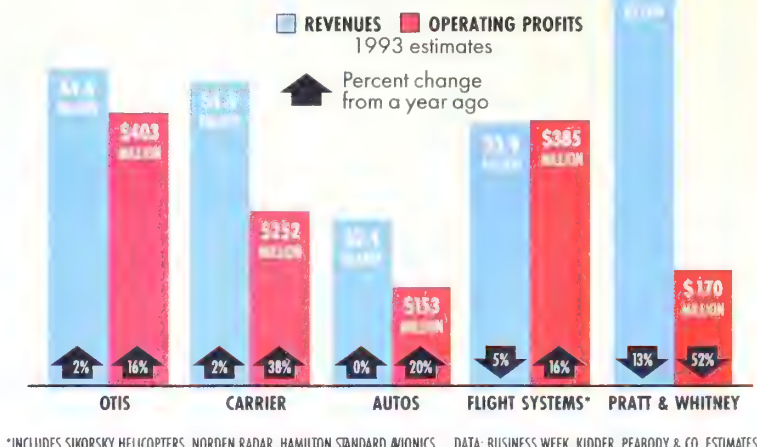
A STRATEGIC SHIFT AT UNITED TECHNOLOGIES...

HIGHER PRODUCTIVITY Thanks to new manufacturing techniques, such as product assembly teams, UTC has shortened production time for elevators and air conditioners. The company has also lightened the payroll at its smaller units by 12,700 jobs, or 7% of the work force.

NEW PRODUCTS Company has spruced up product lines with new technology. Otis is marketing an elevator with computerized sensors to spot maintenance problems early. Carrier has a new line of smaller and lighter air conditioners.

FOREIGN MARKETS UTC's smaller divisions are searching for new customers abroad. Company is selling helicopters to Turkey and servicing elevators in the former Soviet Union. Its air conditioners are gaining market share in Asia.

...IS REVIVING ITS SMALLER UNITS



competitive Japanese market that uses "fuzzy logic"—a computer system that employs complex mathematical equations to estimate the flow of passengers and dispatch elevators accordingly. Carrier, too, has unveiled a line of lighter, more efficient home air conditioners, the first big redesign in a decade.

Still, some of the biggest changes on the product front have come at UTC's automotive business. Once a supplier of electrical wires to carmakers, the division is now a growing provider of high-tech components. For example, the unit won a \$145 million-a-year contract in 1992 to provide wiring and electronic modules to regulate electrical functions on the next generation of Ford Motor Co.'s Taurus, due out in 1995. With auto sales rebounding and carmakers depending more on electronic parts, the unit is expected to show the biggest sales gain

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HOW TO SHRINK NEXT YEAR'S GIFT TO UNCLE SAM

Before you start trimming the tree, remember: There's still a little time to trim your tax bill. Because the Clinton tax increases are retroactive to Jan. 1, you may not find much of a difference between your 1993 and 1994 liability. But that doesn't mean there aren't some tax tricks left in the yearend bag.

A big reason to consider shifting income into this year is the impending Medicare tax on earned income. Until 1994, you only paid this tax on income up to \$135,000. But starting Jan. 1, all earned income is subject to taxation at 1.45% for employees (the employer also pays 1.45%) and 2.9% for the self-employed. If your income will exceed \$135,000 next year, you might want to move some or all of it into this year. "For a lot of lawyers and doctors in partnerships, that 2.9% is a big number," says Rick Taylor a

applies to earned income. So don't shift investment income to avoid it. And it's important to weigh the relative advantages of avoiding this tax if accelerating income will trigger phase-outs on itemized deductions.

TAX TIP #2

ACCELERATE EARNED INCOME TO AVOID THE MEDICARE-TAX HIKE—IF IT DOESN'T BUMP YOU INTO A HIGHER BRACKET

It's not too late to mitigate the provision that will raise Social Security taxes from 50% to 85% in 1994 for singles with "provisional" income of more than \$25,000 and married couples with \$32,000 or more. Provisional income is adjusted gross income (AGI) plus 50% of Social Security benefits and tax-exempt interest income. If your retirement income will exceed these limits, taking, say, a \$10,000 IRA distribution in December instead of January could save significant bucks. And since municipal-bond interest helps determine provisional income, retirees should "consider the tax impact when comparing returns on munis with other investments," says Mark Kersting, a tax manager at accountant Urbach, Kahn & Werlin in New York.

JUGGLING. High-income earners also might want to accelerate income if they're liable for the alternative minimum tax. This tax is designed to keep the wealthy from deducting their way out of paying their fair share. Thus, certain deductions, such as state and local taxes and miscella-

neous and medical expenses, aren't allowed under the AMT. Some items, such as the appreciation on incentive stock options, are also counted for AMT purposes. So if you live in a high-tax state, are exercising a large incentive stock option, or have lots of itemized deductions, you risk falling into the AMT. You have to figure your taxes both ways and pay whichever bill is higher. If you're nearing the AMT, you may be able to move up enough income to push your regular tax bill above the AMT level.

Even if you can't avoid the AMT, you may want to accelerate income to capitalize on its lower rates: 26% for incomes of less than \$175,000, 28% for those above. This is a two-tier hike over last year's 24% rate. (AMT exemptions have also increased.) More important, defer any deductions until 1994 if you'll escape the AMT then. Not only are certain deductions useless in the AMT, but those that are allowed are worth only 28%, compared with 39.6% for top-bracket taxpayers.

People who have trusts might consider making distributions, since trust taxes have skyrocketed. The top rate on trust and estate income is increased to 36% on income over \$5,500. The 10% surtax applies to income over \$7,500. Look at who will pay the most in taxes, the trust or the beneficiary. But don't

do this for tax purposes alone and proceed with caution. "Once you distribute, it's



TAX TIP #1

TO AVOID A MORE INCLUSIVE MARRIAGE PENALTY, WAIT UNTIL JANUARY TO WED, BUT GET DIVORCED NOW

senior tax manager at KPMG Peat Marwick in Washington. "If you can take \$1 million this year instead of next year, you're talking about \$29,000."

There are a few caveats. Don't accelerate income just to avoid the Medicare tax if it will kick you into a higher bracket. If it pushes you into the 36% bracket from the 31%, you would be trading a 1.45% or 2.9% savings for a 5% hike. Also, the tax only

a done deal," says u Salzburg, a tax adviser at Deloitte & Touche.

You may be able to accelerate income by moving c

TAX TIP #3

MOVING FOR WORK: FEWER OF THOSE COSTS WILL BE DEDUCTIBLE—UNTIL THOSE THAT REMAIN WILL COME OFF THE TOP

es and self-employment
e into '93 or exercising
qualified (as opposed to in-
e) stock options. When
, you are taxed on the
nce between what the
was worth when the op-
as granted and its cur-
market value—known as
margin element." But

ploy the usual strategy of de-
fering income and accelerat-
ing deductions. The idea is to
put off as much tax liability
as possible. If you fall into
one of the two new brackets,
36% or 39.6%, you can get an
interest-free loan from the
government by electing to
pay the additional tax created
by the increase over
the next three
years. But be
careful: Any
miscalculation
in estimat-

Put off the closings for real
estate sales and other capital
gains property. Sell securities
short against the box: In other
words, sell borrowed secu-
rities while owning substan-
tially identical ones, which
you later deliver to close the
sale. This lets you lock in
profits while delaying recogni-
tion of gain.

Jump on any deductions
that will be eliminated or cut
back next year. For instance,
if you're moving for work pur-
poses, the distance your job
must be from your old home
goes up from 35 miles to 50
miles. You'll lose write-offs for
pre-move house-hunting trips,
temporary living expenses,
and the costs of settling an
unexpired lease. So squeeze
all or part of any move
into the next few
weeks, if you can.

The good news is
that in 1994,
moving ex-
penses will
become an
"above-the-line"
item. In other
words, you can
deduct them off
the top to lower
your AGI rather than
having to exceed your
standard deduction to
use them.

PARTY REPRIEVE. Deduc-
tions for work-related club
dues are also getting the
ax, and those on meals and
entertainment will be cut
back from 85% to 50%. So
eat, drink, and be merry
while you can. (Office Christ-
mas parties and picnics are
still O.K.) If you have a bill
for a country club or an ath-
letic club that's due early next
year, pay it now to get the
tax break, says Stuart Kess-
ler, a partner at Goldstein,
Golub, Kessler & Co.

Your personal life has tax
consequences, too. Engaged
couples should wait until '94
to tie the knot if marriage
puts them in a higher brack-
et. Conversely, divorcing
couples should finalize the separ-
ation in December, if possible,
to avoid paying the marriage
penalty next year. Other tac-
tics include paying January
state and local taxes—beware

of triggering the AMT—or real
estate and property taxes this
month.

Don't forget the holiday
spirit. Even Scrooge would
want to donate appreciated
property to charity this year.
You get to claim the present

TAX TIP #4

**THIS IS THE LAST YEAR
YOU CAN DEDUCT
BUSINESS-RELATED CLUB
COSTS, SO PAY NEXT
YEAR'S DUES NOW**

value as a deduction and
avoid capital-gains taxes on
it. In the past, such gifts were
liable to trigger the AMT—but
no more. "There's no reason
why anyone wanting to give
money to charity shouldn't
use that" instead of paying
cash, says Kevin Roach, a tax
planner at Price Waterhouse.
But watch out: You can de-
duct the full market value on
long-term holdings, but on
short-term assets, only the
cost is deductible. And re-
member, you have until the
end of the year to give up to
\$10,000 to a family member
without paying a gift tax.

If you want to realize loss-
es to counteract gains, avoid
pitting short-term losses—
worth 39.6% in the top brack-
et—against long-term gains,
worth 28%. You can deduct

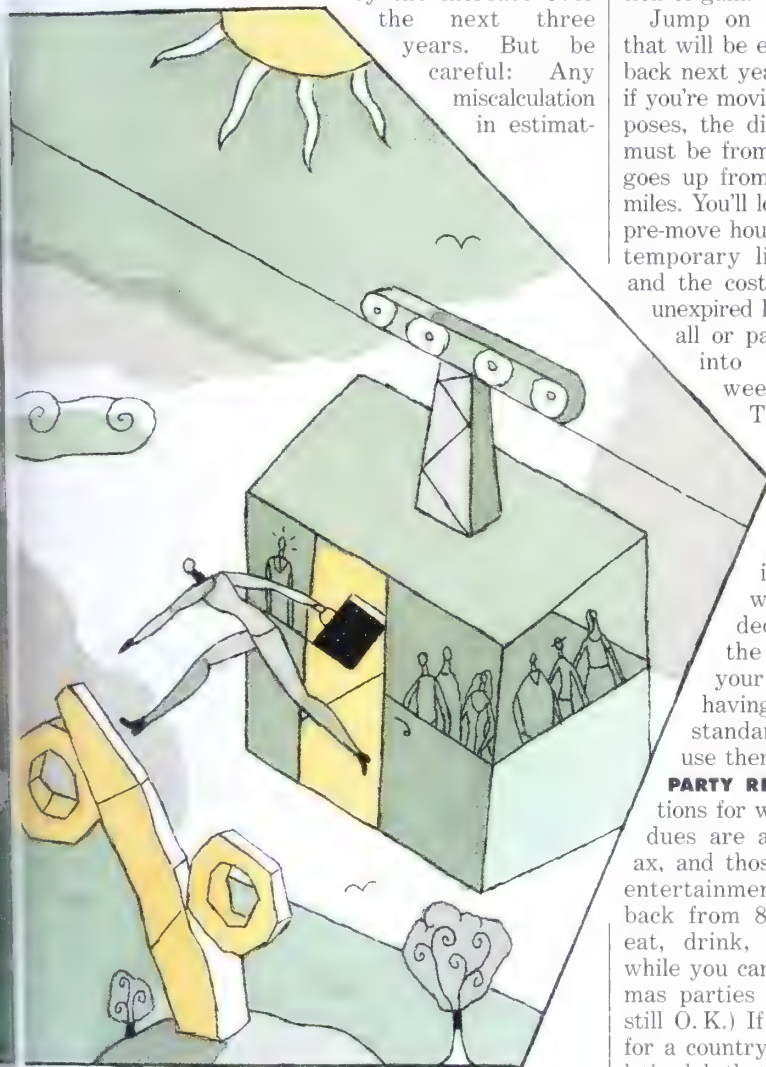
TAX TIP #5

**GIVE APPRECIATED
STOCKS OR PROPERTY TO
CHARITY—IT WON'T
TRIGGER THE ALTER-
NATIVE MINIMUM TAX**

up to \$3,000 in capital losses
against ordinary income. To
create losses, you can sell fall-
ing stock and repurchase sim-
ilar stocks only if you wait
until 30 days after the sale.

These moves may keep a
little more money in your
pocket—unless you want to
rush out and spend it on holi-
day gifts.

Pam Black



preciation thereafter
taxed as capital gains
you sell. So by exercis-
options this year, you
id the Medicare tax
vert future income
ital gains. Don't try
a incentive stock op-
ause they aren't sub-
he Medicare tax, and
gain element could
he AMT.
e of the above crite-
y to you, and you ex-
ur bracket to be the
s year and next, em-

ed payments will cost you this
option.

To defer income, contribute
to retirement plans such as
401(k) and individual retire-
ment accounts. Buy Series EE
savings bonds, which aren't
taxed until they're redeemed,
and munis, which aren't taxed
at all. Shorter-term deferral
tactics include buying Treas-
ury bills or certificates of de-
posit that won't credit you
with interest until next year.

If you're self-employed, de-
lay December billing until '94.

Potables

BURGUNDY BARGAINS AND BLOCKBUSTERS

If you're looking for wine for a special occasion, think Burgundy. Although France's Burgundy region boasts some of the world's most drinkable—and expensive—wines, they're not as popular in the U.S. as other varieties. Yet Burgundy reds are more aromatic and less earthy than their cousins from Bordeaux, while the whites have a subtler, less oakey flavor than the ubiquitous California chardonnays.

The 1993 vintage, harvested in September in vineyards stretching from Dijon to Mâcon, has just been put in 300-bottle oak casks to ferment. In a year or so, eager buyers can start stocking their cellars with the latest Romanée-Conti, consistently the world's

most expensive red wine, or Montrachet, one of the best whites.

Patrick Dussert-Gerber, author of *Guide des Vins de France '94* (\$23.75, Albin Michel, Paris), offers a few basics.

A simple table wine can be obtained from the vineyard for under \$4. Unfortunately, not much of it is exported. Moving up to a medium price range of \$13-\$20, one can easily find Chablis or Pouilly-Fuissé, two whites that most Americans have probably heard of without realizing that they were Burgundies. In reds, check out a Volnay made at Domaine du Marquis d'Angerville.

SUBTLE SENSATION. For special occasions, a Pommard from Château de Pommard, at \$50 and up a bottle, or a Clos de Vougeot from Louis Jadot,



BEYOND BORDEAUX AND CALIFORNIA: BURGUNDY REDS ARE MORE AROMATIC, WHITES LESS OAKY

starting at \$40, will make a stunning complement to meat. One of Philippe Bouzereau's Meursaults would be a subtle alternative to California chardonnay. It goes for about \$25 stateside.

The best years for reds:

1978, 1979, 1981, 1982, 1983, 1989, and 1990 (but wait a few years for the most vineyard). New York (such as Kobral 490-9300), the direct you to retailer.

On a recent tour through Burgundy region, I paid \$12 for a 1987 Pommard St.-Georges (Château de Thorey from Maine Thomas) and \$47.50 for a 1985 Pommard Château de Pommard. Having

learned from a dégustation (tasting) of both wines in cellars where they were made, I know they're good. And like any fine Burgundy, they will only get better the next 20 years—i.e., wait that long. *Patrick*

Mention creative financing to most mortgage lenders, and you're likely to get a blank stare. That's what New York investment banker Christopher Hogg found when he went shopping this fall for a jumbo mortgage to buy his dream house on Long Island. But after being turned down by several institutions, he found one, Emigrant Savings Bank, that was willing to offer him a "designer mortgage" that met his requirements.

Hogg figured that interest rates would probably remain stable for two to three years, then rise steadily. By that time, he could pay off a large chunk of his mortgage. So he wanted a deal that would take advantage of low adjustable rates, lock in a low fixed rate in case rates rise, and cut his monthly payment if he pays off part of the loan.

The result was two mortgages—a fixed and an adjustable—wrapped neatly into a single "hybrid" loan for something "over \$500,000." Sixty

Smart Money

MORTGAGES: NOW, YOU CAN GET THE BEST OF BOTH WORLDS

percent of the total is a 15-year, 6.75% fixed-rate mortgage, and the remainder is a 30-year adjustable bearing a first-year rate of 3%. Assuming a \$500,000 loan, rates on the adjustable portion of 5% in year two, and 7% in years

three through five, the net savings in monthly payments over five years is nearly \$30,000. Even though Hogg will owe more at the end of five years than if he had taken a single 15-year fixed mortgage, he will have achieved

his goal of gaining flexibility to put his cash to other uses.

A small—though growing—number of lenders is offering similar kinds of flexible mortgages. One reason they aren't more common is that lenders structure loans to be sold in the secondary market vs. retaining them in their portfolios. Lenders also consider cus-

tom deals too time-consuming.

Still, they could catch on. Dime Savings Bank of New York has granted borrowers who expect their income to increase a mortgage with a low rate for most of the interest paid in the later rather than the early years of the loan. The Dime hasn't extended to hybrid mortgages, says Vice-President David Hogg. Merrill Lynch, Pierce, Fenner & Smith and The Boston Company offer combination fixed-rate mortgages with a home-equity line of credit that is essentially year adjustable.

Emigrant offers design options to any borrower who qualifies for a conventional mortgage, though they say the most sense for someone who needs a large loan is a bank has even put together three-tier mortgages in which 25% has been fixed for the first five years, 50% is fixed for the next five years, and 25% is adjustable. Some lenders with bankers, ask what you shall receive. *Phillip*

A DESIGNER VS. A FIXED MORTGAGE

\$500,000 Mortgage 5-year payout

15-YR. FIXED AT 6% \$265,473

DESIGNER: \$300,000 15-yr. fixed at 6% 159,283

200,000 30-yr. adjustable at 76,896

3% in yr. 1; 5% in yr. 2, 236,179

7% in yrs. 3-5

Reduction in total payments with designer mortgage: 29,294

DATA: EMIGRANT MORTGAGE CO

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TMENTS
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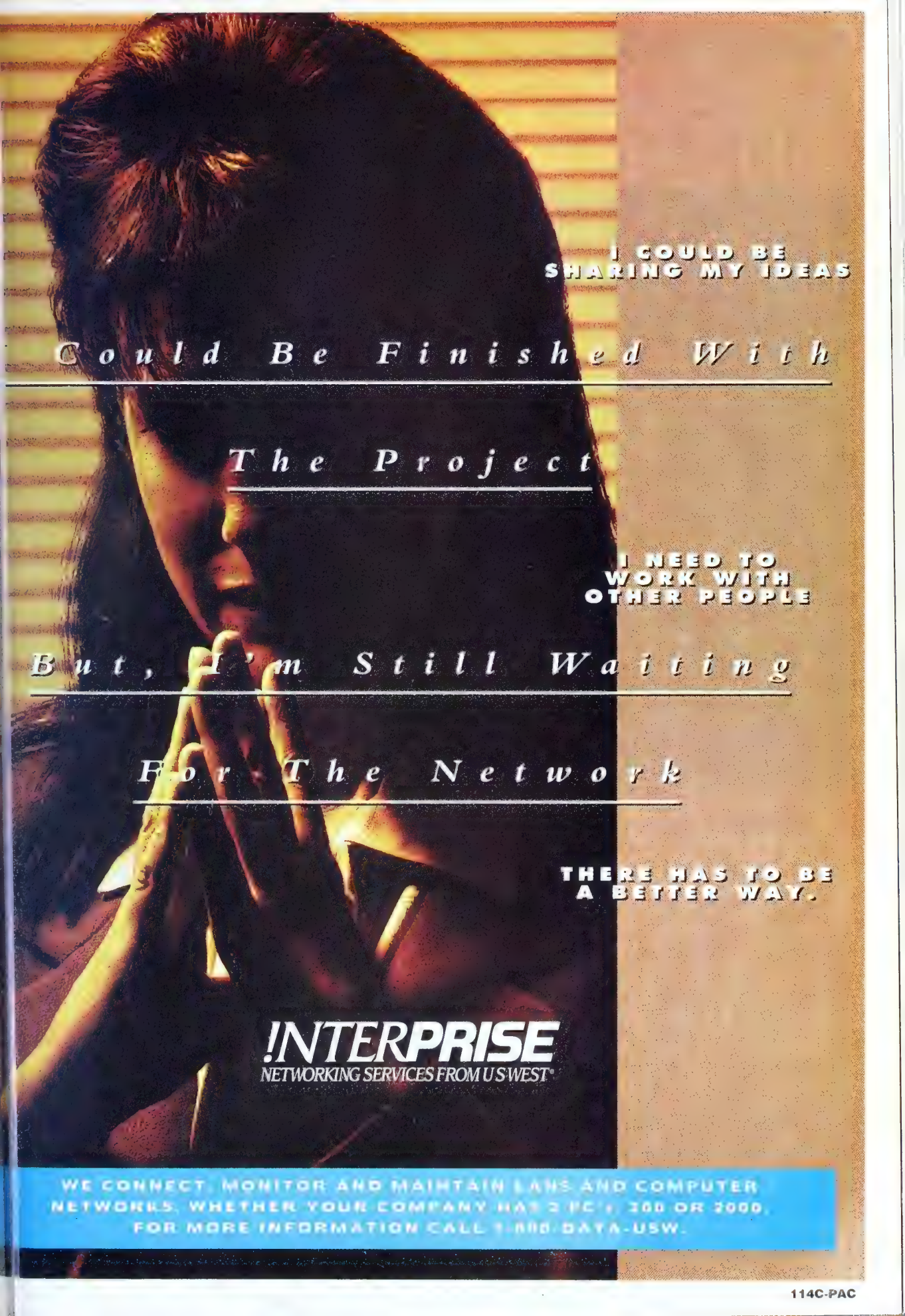
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plan to give a special gift this holiday season, you might consider—say, gold cufflinks or a bracelet. But instead of buying a new bauble, you might acquire a piece of estate jewelry.

Previously owned pieces of jewelry have a lot of value for the price in the moderate (under \$1,000) price range. Even if you're difficult-to-please, you can find something to your taste. Whether it's the intricate design of 19th-century jewelry or the geometric designs of the Art Deco period, or the clean lines of 1940s "cocktail" jewelry.

Compared with the most shop windows, estate jewelry sets the standard apart in a way that ordinary jewelry can't," says Scherer, co-owner of Pleasures, a New

Collecting

SECONDHAND TREASURES CAN BE SECOND TO NONE

pieces, says Stephen Silver, president of estate-jewelry dealer S.H. Silver in Menlo Park, Calif. The colored stones, such as rubies, are also often superior to those available today.

You can buy estate jewelry from several sources. You might find pieces at an estate sale advertised in the classifieds. Most department stores and jewelry shops that carry such items guarantee their merchandise, sell on credit, and take back

pieces. But department stores buy from dealers or sometimes take inventory on consignment. That, combined with overhead, can mean high markups. Recently, Macy's priced a Victorian Estruscan-revival bar pin at \$1,000, while a dealer at the Manhattan Art & Antique center had an identical piece tagged \$600.

MIXED MARKUPS. Dealer prices can also vary dramatically depending on how much the dealer paid, how long a dealer has had a piece, and markups, which can be as low as 10% or as high as 100% or more.

Auctions offer a superb selection of estate jewelry, says independent jewelry consultant Antoinette Matlins. The major auction houses, such as Skinner in Bolton, Mass., or Sotheby's and Christie's in New York, hold several jewelry sales a year. But retail

claim one air mile for every \$10 you invest for a year in American Advantage Mileage Class funds. Discount broker Jack White & Co. (800 455-1123) offered a regular no-load money-market fund in

August (current yield 2.91%) and added municipal and Treasury money-market funds in November.

■ **CHIP TIPS.** Can't tell a hard disk from a CD-ROM? Don't worry. *The Little PC Book* by

have any piece you plan to buy appraised independently. The appraisal may cost \$100, but that's a modest fee to ensure that you're getting what you think you are. The American Society of Appraisers (703 478-2228) or the American Gem Society (702 255-6500) can provide names.

HOMEWORK. If you're a new buyer, you can take the pulse of the market by going to auctions and antique shows. *Antique and Twentieth Century Jewelry* by Vivienne Becker (\$65.00, NAG Press) offers a comprehensive look at jewelry periods and design. *Jewelry & Gems: The Buying Guide* by Matlins (\$16.95, Gemstone Press) provides the basics, including advice on how to gauge

stone quality. Unless you know the field, buy from someone who has a long, reputable track record. A good dealer will alert you to replaced stones or alterations and let you return the piece, usually within 30 days, for a refund. Make sure the seller writes down the facts about the piece on the bill: when it was made, style, materials, and weight of stones.

How do you decide to take the plunge? "Buy quality," advises Eric Bleiler of Eric Bleiler Jewelers in New Upper Falls, Mass. No matter what the period, such jewelry holds its value and is more likely to appreciate. A quality piece will be of pleasing design and in good condition, with no extensive repairs or major flaws in stones. The best pieces are unusual. And it's a plus if they are signed by a well-known jewelry house. Whatever you do, have fun. Buying estate jewelry should be more like treasure hunting than shopping. *Emily Smith*



WHITE-AND-YELLOW GOLD '60S BRACELET WITH TWO DETACHABLE DIAMOND-AND-SAPPHIRE CLIPS: \$10,500

No matter where you buy, be careful. "There's more fraud than ever," says Matlins. Victorian, Art Deco, and Edwardian reproductions are plentiful. So are pieces carrying bogus signatures from famous jewelry houses, such as Tiffany and Cartier. You also need to be on the lookout for older items that have been altered or have had colored stones replaced with new ones. To avoid getting taken,



PAINTED PORCELAIN HEAD, CIRCA 1870: \$2,500



WHITE-AND-YELLOW GOLD NECKLACE: \$12,500

elry gallery. Try to duplicate of Scherer's white-and-yellow-gold from the 1960s: It and the wrist to meet sapphire and diamonds that also double t's also virtually imo recreate today—at de prices—the qualrkmanship in Victorian, or Edwardian

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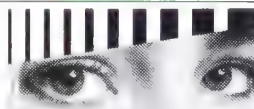
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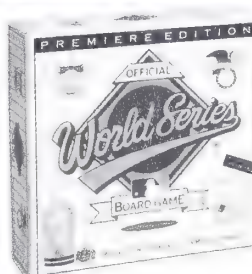
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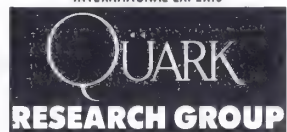
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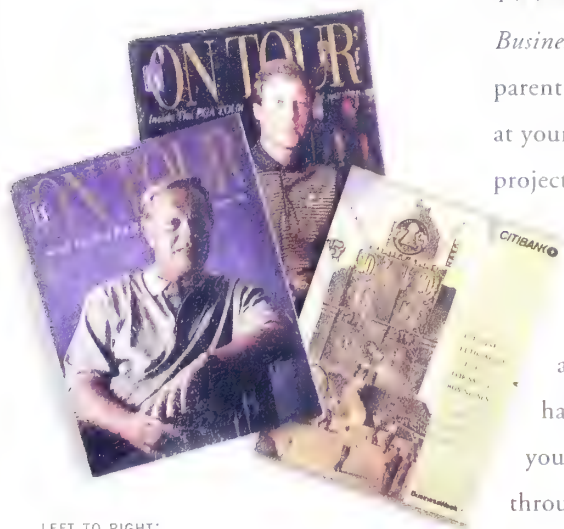
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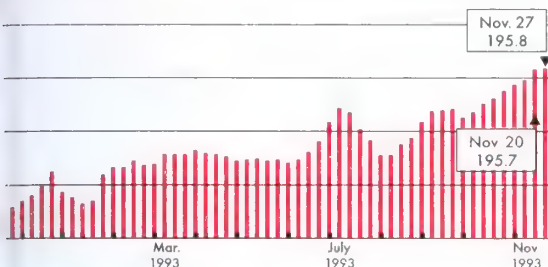
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PRODUCTION

from last week: 0.1%
from last year: 7.0%

1967=100 (four-week moving average)

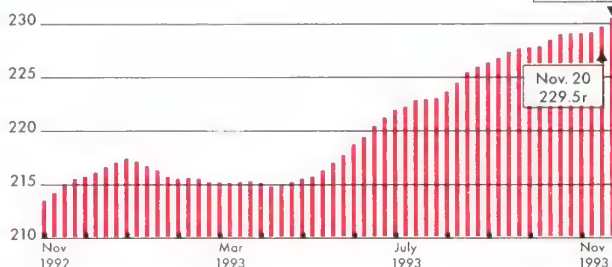


Production index was nearly flat during the week ended Nov. 27. Adjusted levels of autos, trucks, electric power, paper, crude-oil refining, and coal and rail-freight traffic declined and offset rising production in steel and lumber output was unchanged. Before calculation of the four-week moving average, the index fell to 194, from 198, probably reflecting plant closings during Thanksgiving Holiday. For November, the index rose to 195.8, from 193.7.

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: 0.3%
Change from last year: 6.9%



The leading index increased slightly during the week ended Nov. 27. Higher stock prices and better growth rates for materials prices and M2 led the gain. Higher bond yields, increased large-business failures, and slower growth in real estate loans held back the index. Before calculation of the four-week moving average, the index was unchanged at 230.9. For the entire month of November, the index increased to 230.3 from 228.8 in October.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
(4) thous. of net tons	1,856	1,816#	8.7
(2/4) units	142,291	84,649r#	7.4
(12/4) units	106,207	64,311r#	5.9
POWER (12/4) millions of kilowatt-hours	57,218	55,093#	-2.2
CRUDE OIL REFINING (12/4) thous. of bbl./day	13,846	13,580#	1.8
(12/27) thous. of net tons	15,110#	19,492	-20.7
STEEL (11/27) thous. of tons	834.7#	852.7r	0.8
(12/27) thous. of tons	809.0#	816.0r	1.3
(11/27) millions of ft.	309.4#	494.2	-34.9
WHEAT (11/27) billions of ton-miles	17.8#	23.1	2.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, Petroleum Institute, Energy Dept., American Paper Institute, WPPA, SPPA, Association of American Railroads

CURRENCY EXCHANGE

	Latest week	Week ago	Year ago
YEN (12/8)	109	108	124
MARK (12/8)	1.71	1.72	1.58
POUND (12/8)	1.49	1.48	1.55
FRANC (12/8)	5.87	5.94	5.39
DOLLAR (12/8)	1.32	1.34	1.27
YEN (12/8)	1.47	1.50	1.41
PESO (12/8) ¹	3.104	3.104	3.108

¹Major New York banks. Currencies expressed in units per U.S. dollar, except for British pounds expressed in dollars

SPOT

	Latest week	Week ago	% Change year ago
8) \$/troy oz.	382.300	373.100	14.6
GP (12/7) #1 heavy, \$/ton	137.50	137.50	54.5
FS (12/7) index, 1967=100	222.3	221.3	9.4
(2/4) ¢/lb.	74.5	79.5	-26.2
(12/4) ¢/lb.	50.8	51.3	-7.6
(4) #2 hard, \$/bu.	3.85	3.88	1.0
(2/4) strict low middling 1-1/16 in., ¢/lb.	59.14	59.10	14.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals City market, Memphis market

In the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (12/3) S&P 500	462.80	461.73	7.4
CORPORATE BOND YIELD, Aaa (12/3)	6.95%	6.98%	-13.8
INDUSTRIAL MATERIALS PRICES (12/3)	93.4	94.2	-3.6
BUSINESS FAILURES (11/22)	320	355	-17.9
REAL ESTATE LOANS (11/20) billions	\$406.7	\$407.1r	0.6
MONEY SUPPLY, M2 (11/18) billions	\$3,514.2	\$3,513.4r	1.4
INITIAL CLAIMS, UNEMPLOYMENT (11/16) thous.	338	338	-6.1

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Nov.)	195.8	193.7	7.0
BUSINESS WEEK LEADING INDEX (Nov.)	230.3	228.8r	6.9
EMPLOYMENT, CIVILIAN (Nov.) millions	119.9	119.5	1.9
UNEMPLOYMENT RATE, CIVILIAN (Nov.)	6.8%	6.7%	-8.1

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/22)	\$1,124.8	\$1,123.1r	10.9
BANKS' BUSINESS LOANS (11/24)	272.7	273.7r	-3.2
FREE RESERVES (11/24)	1,031r	931r	-15.7
NONFINANCIAL COMMERCIAL PAPER (11/24)	159.7	159.5	6.5

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (12/7)	2.67%	3.16%	2.94%
PRIME (12/8)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (12/7)	3.42	3.44	3.74
CERTIFICATES OF DEPOSIT 3-MONTH (12/8)	3.33	3.35	3.54
EURODOLLAR 3-MONTH (12/3)	3.38	3.38	3.80

Sources: Federal Reserve Board, First Boston

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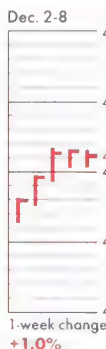
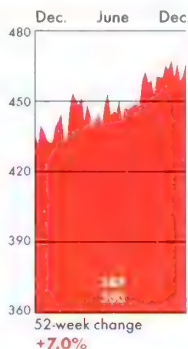
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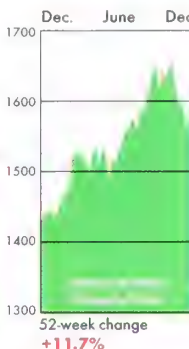
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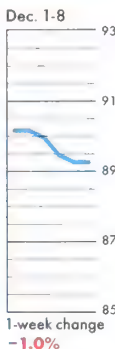
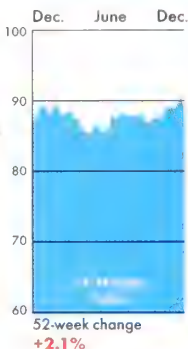
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

	Latest	% change Week	% change 52-week
INDUSTRIALS	3734.5	1.0	12.4
COMPANIES (S&P MidCap Index)	175.3	0.8	11.8
COMPANIES (Russell 2000)	254.4	0.7	17.3
COMPANIES (Russell 3000)	268.7	0.9	8.2

	Latest	% change (local currency) Week	% change 52-week
FINANCIAL TIMES 100)	3277.4	1.4	19.1
KEI INDEX)	16,508.0	-3.6	-5.2
SE COMPOSITE)	4307.7	2.1	31.1

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.14%	3.18%	3.31%
30-YEAR TREASURY BOND YIELD	6.17%	6.26%	7.44%
S&P 500 DIVIDEND YIELD	2.75%	2.73%	2.84%
S&P 500 PRICE/EARNINGS RATIO	22.8	22.5	24.1

TECHNICAL INDICATORS

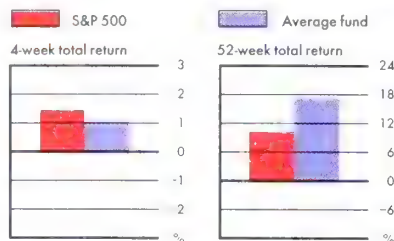
	Latest	Week ago	Reading
S&P 500 26-week moving average	456.6	455.9	Positive
Stocks above 26-week moving average	51.1%	47.0%	Negative
Speculative sentiment: Put/call ratio	0.41	0.38	Positive
Insider sentiment: Vickers sell/buy ratio	1.95	1.93	Positive

INDUSTRY GROUPS

LEADERS	% change		Strongest stock in group	% change		Price
	4-week	52-week		4-week	52-week	
CONTAINERS	17.8	-11.4	STONE CONTAINER	45.5	-36.0	12
ON CONTROL	16.7	-26.5	BROWNING-FERRIS INDUSTRIES	21.8	4.3	27 1/4
	10.0	6.8	INCO	15.6	20.9	26
MANUFACTURING	9.8	-27.5	V.F.	14.1	-19.4	45 3/8
ER SOFTWARE AND SERVICES	9.8	37.9	ORACLE SYSTEMS	18.2	215.8	36 1/8
LAGGARDS	% change		Weakest stock in group	% change		Price
	4-week	52-week		4-week	52-week	
ORATION AND PRODUCTION	-12.5	3.8	ORYX ENERGY	-24.6	-11.9	17 3/8
EQUIPMENT AND SERVICES	-7.1	0.6	HALLIBURTON	-15.6	-0.9	29 1/8
	-6.9	-28.9	GENESCO	-13.7	-39.7	5 1/2
C OIL	-6.0	6.6	LOUISIANA LAND & EXPLORATION	-13.6	16.9	38 7/8
GAS DRILLING	-5.9	15.4	ROWAN	-8.2	9.8	8 3/8

MUTUAL FUNDS

Total return	%	LAGGARDS		%
		Four-week total return		
LATIN AMERICA	14.2	EQUITY STRATEGIES		-13.9
LYNCH LATIN AMERICA A	11.7	STATE STREET RESEARCH GLOBAL ENERGY A		-13.2
LATIN AMERICA	11.6	FIDELITY SELECT ENERGY SERVICE		-9.3
1 return	%	52-week total return		%
N STRATEGIC INVESTMENTS	196.5	PILGRIM CORPORATE UTILITIES		-17.4
AS GOLD	91.6	INVESCO STRATEGIC ENVIRONMENTAL SERVICES		-14.9
INTERNATIONAL INVESTORS	91.3	INVESCO STRATEGIC HEALTH SCIENCES		-11.6



MUTUAL FUND PORTFOLIOS

Units to present \$10,000 one year ago portfolio	Foreign stocks	Treasury bonds	Gold	U.S. stocks	Money market fund
indicate returns	\$13,472 +4.50%	\$12,497 +1.84%	\$11,237 +1.62%	\$10,904 +1.08%	\$10,215 +0.04%

page are as of market close Wednesday, Dec. 8, 1993, unless otherwise indicated.
include S&P 500 companies only; performance and share prices are as of market close

Dec. 7. Mutual fund returns are as of Dec. 3. Relative portfolios are valued as of Dec. 7. A more detailed
explanation of this page is available on request.

FAREWELL TO THE PYRAMID CHART

When it comes to new ideas for managing companies, it's not always easy to sort out the one-day wonders and fads from the true innovations. But more and more, the notion of a "horizontal corporation," where workers concentrate on satisfying customers rather than bosses, is looking like the real thing (page 76). Top U.S. companies such as General Electric, American Telephone & Telegraph, and DuPont are flattening out their hierarchies and getting improvements in speed and productivity that cannot be matched by old styles of management.

To be sure, companies have recognized for a while that they need to become nimbler competitors by eliminating layers. But what American businesses are learning is that real horizontal corporations go much further than that. Companies have to organize workers into self-managing teams, altering management and employee responsibilities—and everybody's compensation. Senior managers must relinquish control, something rare in the absence of a guillotine or a voting booth. And lower-level managers must take more responsibility for wider issues—anathema to the organization man. Nothing less than a corporate cultural revolution is needed.

The conversion will be agonizing. Since the Industrial Revolution, business has often taken the army as its model, a system that relies on a clear-cut chain of command. Information flowed up from the bottom, and orders flowed down from the top. Generations of managers could point to pyramid-shaped organizational charts and tell you exactly where they stood.

Given the 100 years of phenomenal success that the hierarchical corporate model has had, real change is far easier to talk about than to implement. The vertical corporation is a dinosaur—still breathing, but too slow to thrive in the fast-paced age of global competition and quicksilver information. That means a genuine shift to the horizontal model could have a huge payoff—both for companies and the whole U.S. economy.

GATT: A STRONG TONIC FOR GROWTH

If American, European, and Japanese leaders bring to a successful close the seven-year odyssey to negotiate a new General Agreement on Tariffs & Trade, the global economy will get a much-needed boost. Economists estimate that a new GATT agreement, which would lower world tariff barriers by 30% and cut back on a variety of other trade impediments, could add more than 4 million jobs in the industrialized countries over the next 10 years (page 36).

But economic calculations vastly understate the importance of GATT for future growth and wealth. For underlying GATT is a powerful, simple vision far more ambitious in its

reach than any notions about American, Japanese, or European capitalism. A world of free trade is one open to ideas, new products, new technologies, and new ways of organizing everyday life. Indeed, as nations open their borders, the rewards of free trade will go not to the lucky countries or to those blessed with natural resources. Instead, the winners will be nations willing to create new knowledge and to learn from their competitors. U.S. manufacturers have learned from Japan and Europe.

What's more, free trade has a powerful political edge as well. The free flow of information and products forces rigid, minded bureaucracies to open up, makes statist governments loosen their grip, and nurtures democracy in emerging countries and communist nations.

Of course, even as free trade adds to overall growth and prosperity, it means painful adjustments for workers in companies facing new foreign competition. But the alternative is worse: stagnation for many and fewer links among nations and people. Many of us would not only be poorer, but less free. That is why GATT is truly important.

EUROPE NEEDS A LIVELY PHONE RIVALRY

Europe's anachronistic state-owned telephone monopolies are under siege. Rivals are using new technologies and exploiting regulatory loopholes to offer lower rates and new services (page 96). What's more, the European Community will deregulate all aspects of telecommunications by 1998. So unlike America's Baby Bells, which protect their monopolies in local calling areas, European operators will have nowhere to hide.

Good. But regulators and other policymakers should shy away from the most critical task of all: allowing independent telephone company competitors to build their own infrastructures. Without competing networks from cable television and independent telephone operators, competition is academic since monopoly operators can hold rivals hostage with inflated prices for leased lines and other tactics.

Bolstering competition won't be easy. While some European telecom operators are moving smartly into the market, others are simply circling the wagons. On Dec. 7, British Telecom and Deutsche Bundespost Telekom announced a plan to form a cross-border alliance that could effectively stifle competition within their territories. The advocates of the partnership claim that their venture should be viewed not only as Europe's entry against other equally formidable players in the global market. Perhaps so, but regulators should make sure that consumers and corporations don't suffer from the process.

The goal is not competition for its own sake. Rather, the only way to ensure that Europe doesn't end up in the slow lane of the Information Superhighway. That means the melding of telecommunications, computing, and information, will be critical for competitiveness in the 21st century—and the U.S. is already pulling ahead. The European response now would be to go full steam ahead.

The McCoofys



© 1993 Waterman Pen Company

ALTHOUGH THE MCCOOFY BROTHERS AND THEIR SISTER
HAVE ALWAYS BEEN REMINDED OF THEIR STRIKING SIMILARITIES,
IT IS THEIR DIFFERENCES THEY HAVE ALWAYS INSISTED ON.

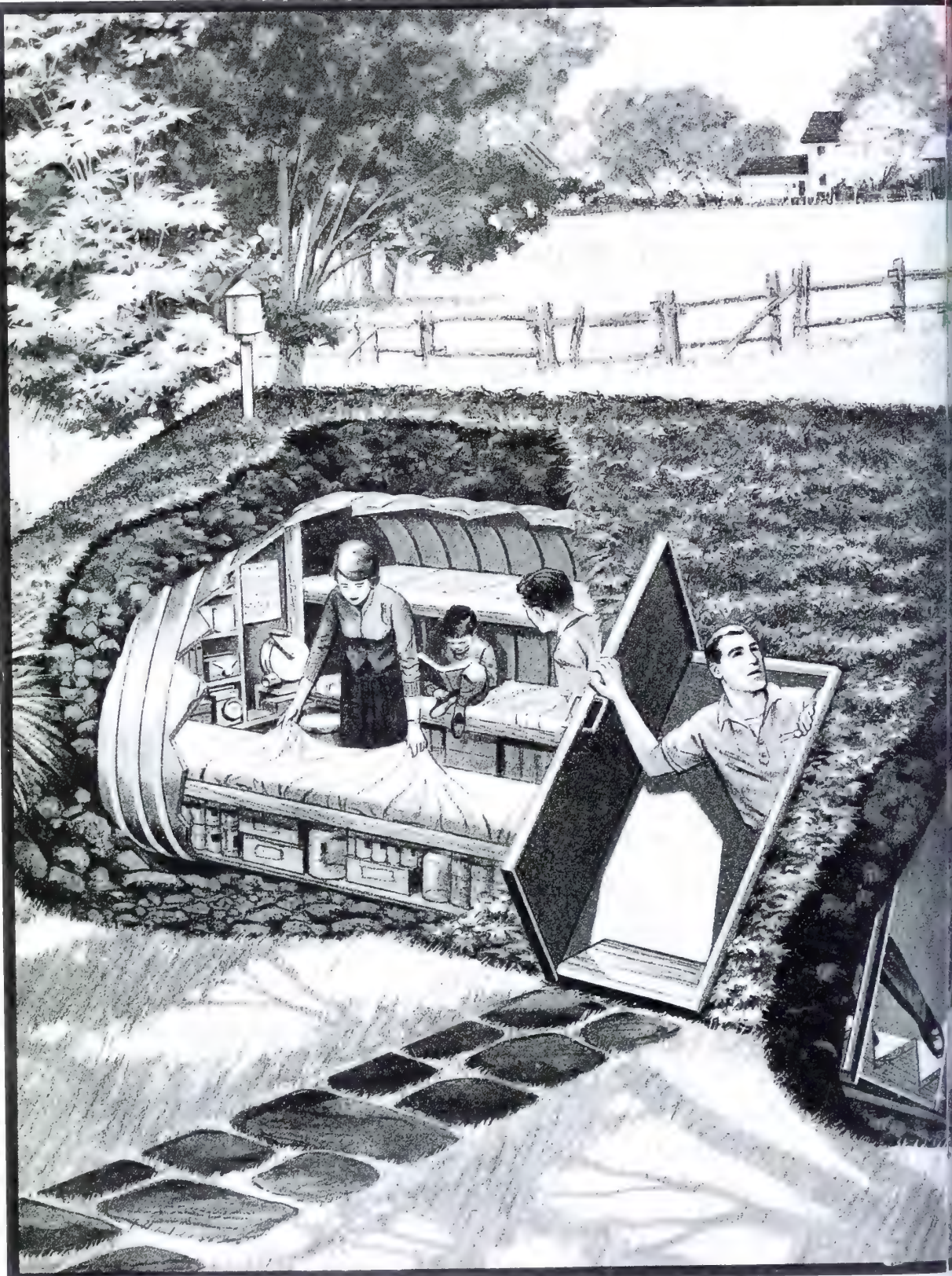
IT IS NO WONDER THEN, THAT EACH OWNS
A DIFFERENT WATERMAN PEN. FOR WHILE STYLE IS KEY,
INDIVIDUALITY IS STILL EVERYTHING.



WATERMAN  **PARIS**

There are over 100 styles and finishes to choose from, each with a lifetime guarantee.

Elmer Wexler. LIFE magazine. © Time Warner.



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December 27-1994 January 3

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That's what the red hot team of Chrysler and Digital did.

"Last year, Chrysler came roaring back. Speeding up our product development cycle. And curbing spending by millions. We have 6,000 active engineering standards that used to take up over 80,000 pages.

The printing costs alone were enormous.

And updating them was expensive and time-intensive. Especially since we have thousands of outside suppliers who need access to these documents.

Digital's leadership in open systems helped us put it all on-line. Digital worked together with our group and many of our suppliers who need access to these documents to develop an electronic database that provides instant access for subscribers inside and outside of Chrysler. And we did it

using standard PCs, off-the-shelf software and systems we already had in place. Digital has helped us dramatically cut the time it takes to distribute engineering standards – from three or four months down to minutes. And we're improving quality all the time by giving suppliers immediate access to the latest standards." If you'd

like your company to get cruising like Chrysler, give Digital a call at 1-800-DIGITAL. Together, we can help you gear up productivity. And put the brakes on spending.

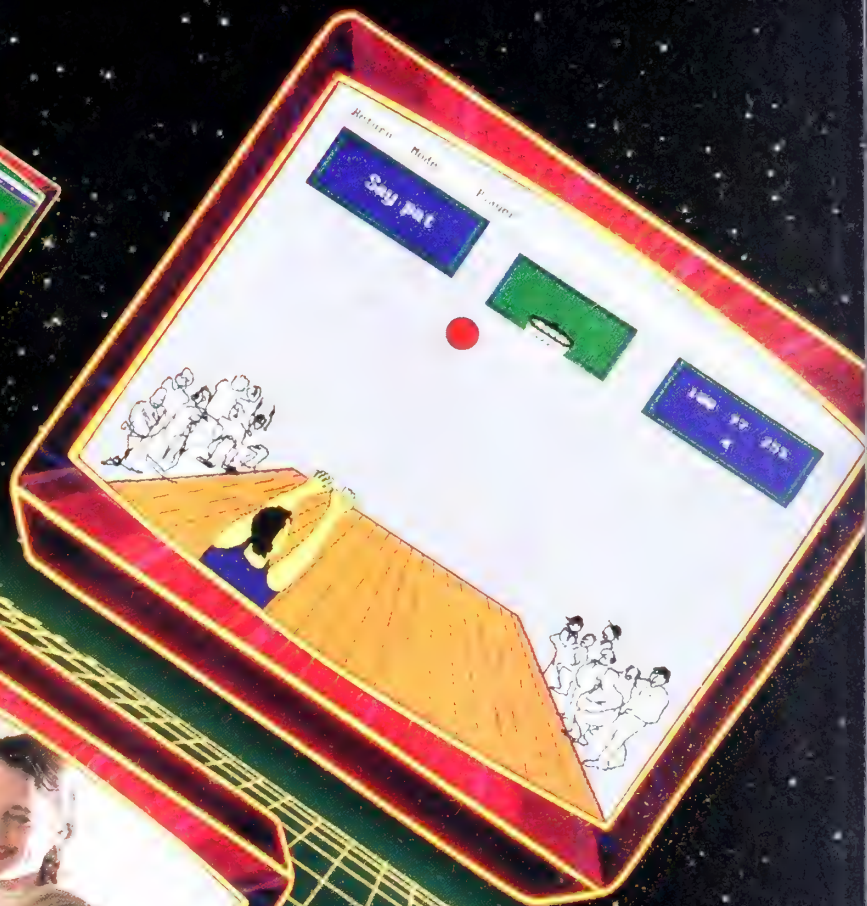


Alex Mucci, Manager,
Engineering Standards
John McCalden, Program Control
Systems Manager
Chrysler Corporation

PUTTING IMAGINATION TO WORK

line on costs.

digital



To you, it's a video game. To the hearing-impaired, it's a new way to learn how to speak.

On the computer screen we see a basketball player shoot the ball and miss. He shoots again and sinks it. The crowd goes crazy.

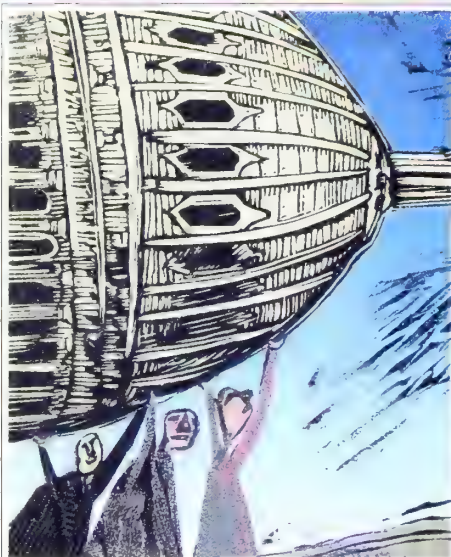
This may sound like a computer game, but it's not. It's actually an entirely new way for hearing-impaired children to teach themselves how to speak. It's called CISTA (Computer Integrated Speech Training Aid). The technology is based on designs from Matsushita's Central Research Labs in Osaka. The system is being developed by our Speech Technology Lab in Santa Barbara, California.

By speaking into sensors that measure the critical elements of speech, the child's speech pattern is instantly analyzed. The way the word is spoken determines where the basketball goes. If the word is spoken properly, the ball goes in the basket; if it's said with too much or too little force, the ball will miss. There are different games to help teach all different aspects of speech.

Currently CISTA is being tested by the Lexington School for the Deaf in New York, the Mayfield School District in Cleveland and by 111 schools for the hearing-impaired in Japan. The preliminary results have been exciting.

While CISTA is currently in the test phase, we believe it has the potential to help thousands of hearing-impaired children. To Matsushita that's what advanced technology is all about.

Matsushita Electric
Panasonic Technics *Quasar*



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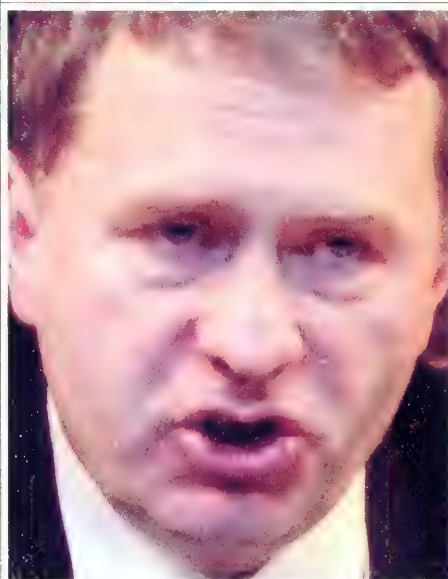
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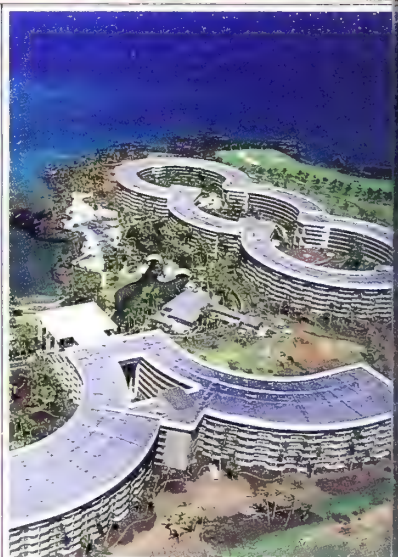
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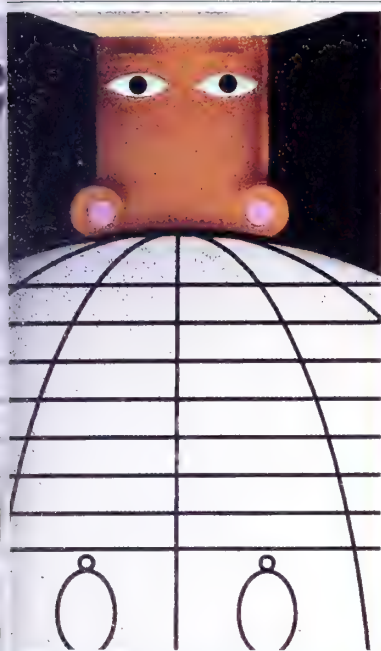
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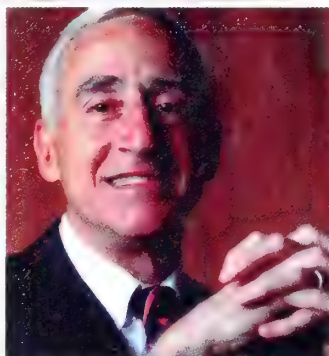
Extra copies of the Investment Outlook 1993 issue are available. For information and prices call single-copy desk at 609-426-5348

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

COLD SHOULDERS

NO, ROY, HE DOESN'T WANT TO DO LUNCH



FRIEND OF BILL—NOT: Vagelos

The White House had Roy Vagelos booted off a health-care discussion panel on Dec. 13, Bill Clinton's latest rebuff to the Merck chief executive. The drug industry

is one of the President's whipping boys on health-care reform, and Vagelos criticizes Clinton's planned drug-pricing restraints—so the Merck honcho is persona non grata to the Clintonites. Vagelos, an ardent 1992 Clinton supporter, tried to discuss the health issue with the President earlier this year, but Clinton wouldn't return his calls.

Vagelos was supposed to share the dais with Clinton during a daylong entitlements symposium outside Philadelphia, partly funded by \$25,000 from Merck. Then, the White House had the event's non-profit sponsor eject him and two smaller companies' execs, saying that corporate donations made their participation look improper. Vagelos and the White House declined to comment. *Joseph Weber*

CAR TALK

MOTOR TREND CAN PICK 'EM ... RIGHT?

You can expect Ford Mustang ads to trumpet the car's recent winning of *Motor Trend's* 1994 Car of the Year award. But how great an honor is it? A glance at past winners shows that they have included both peaches and lemons. Sure, the well-regarded Mustang joins such automotive standouts as the '92 Cadillac Seville STS, the '86 Ford Taurus LX, and the '84 Chevrolet Corvette. And while the '81 Chrysler K-cars were not exactly styling trendsetters, their engineering and marketing significance make them worthy winners.

But the '91 Chevrolet Caprice Classic LTZ? While the award-winning police-car version sold respectably, the civilian model, whose styling was often compared to an upside-down bathtub on wheels, bombed in the marketplace. Other honorees that were sales or styling duds—or both: the '76 Plymouth Volare,



PEACH ON WHEELS? The '94 Mustang

Chevy's '71 Vega and '80 Citation, and the '83 American Motors Renault Alliance.

This year, *Motor Trend* re-

TALK SHOW

This is a great and beautiful victory for French culture.

—Alain Carignon, France's Communications Minister, after Washington withdrew demands that the French open markets for U.S. films, television shows, and other commercialized contamination



MINNESOTA MANSE: The house that Golub (right) built

EXECUTIVE PERKS

LITTLE SINKHOLE ON THE PRAIRIE

When American Express moved Harvey Golub from Minneapolis to its New York headquarters in mid-1991, it bought his \$6.9 million mansion, making him whole. Harvey's house, in suburban Edina, then languished unsold.

Well, AmEx, which pays now-Chairman Golub \$3 million a year, has finally landed

a buyer. According to the *Minneapolis Star and Tribune*, a local heart surgeon recently snatched up this place for a bargain \$2 million figure AmEx confirms. AmEx loss, including its \$1.3 million in taxes and other costs, totals a cool \$6.2 million. Says an AmEx spokeswoman: "I got the same benefits [as] other senior executive."

Golub, who had headed Minneapolis-based IDS Financial Services, an AmEx subsidiary, built the 15,000-square-foot place but never lived in it before his transfer. It comes with a four-car garage including its own car wash, a TV that rises out of the kitchen counter, and a computerized bathtub that automatically fills and maintains its temperature till you're ready. *Leah Nathans* *St.*

REALITY CHECK

FRANCE AND JAPAN SAY they have granted major concessions to reach a new global trading agreement. Thanks to these breakthroughs, the long-stalled General Agreement on Tariffs & Trade is poised to become a reality. France

IN REALITY, these concessions are pretty paltry. The accord calls for a snip in subsidies on 21% of France's agricultural output over six years, with most of the cut delayed until the final year. France could continue existing subsidies on 79% of farm production after the year 2000. As for Japan, it will import a mere 4% of

has O.K.'d eliminating subsidies for its farmers who complain that their way of life would be endangered as a result. And Japan has agreed

to cease protecting its equally sacred agricultural sector by dropping barriers to rice imports.

its 10 million metric tons of rice consumption in 1995, increasing that amount to 8% over six years. The pact allows replacement of outright import bans with tariffs that can be just as rigid in practice. So in 2000, Japanese tariffs will take effect if Japan's trading partners make admit even more imports. *Douglas Harbree*



44 After our flight was grounded in Denver
I had ten hours on my hands
and, fortunately, an NEC notebook computer
in my bag. 71



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Up Front

THE MONEY GAME

IT AIN'T EXACTLY UNCLE SCROOGE, BUT...



FED COMIC: A hipper style?

Yo! Who says the stodgy Federal Reserve Bank of New York can't be hip? It's updating its series of educational comic books designed to teach kids about economics and finance. *The Story of*

Banks, revised this fall, explains banking through the story of three teens who start a pretzelmaking business. One of the boys sports a turned-around baseball cap, the girl wears black leggings, and the banker is an African-American. The dialogue uses bad puns ("chills from too many overdrafts" kill a bank) rather than in-your-face, 1990s humor. But compare the new version with the 1979 book, where the star is a balding, white-male banker and the only minority is a black teller.

The New York Fed has produced the series since 1958, giving away to schools upwards of 500,000 comic books a year. Books on trade and other topics also are being updated. While aimed at kids, the comics lure others. Some members of Congress requested the one on trade during the debate over the North American Free Trade Agreement. *Owen Ullmann*

RUST-BELT BEAT

A LITTLE SCRAPPING AMONG THE STEELMAKERS

Attention, conspiracy buffs! Some steel minimills are looking for dark reasons why the low-cost scrap they feed their furnaces isn't so cheap anymore. For a while now, lower production costs have let the minis knock steel's big boys around. But over the past year, scrap has soared

over the past year, according to Kidder Peabody. Grouses Keith Busse, a former plant manager at minimill Nucor who is now starting his own outfit: "These guys are out there wantonly and indiscriminately bidding the market up."

The major producers deny any nefarious intent. Rising demand for steel has forced them to turn to scrap, they say. LTV Chairman David Hoag says higher scrap prices are "also a significant cost increase for us." But, says an Inland Steel vice-president, "maybe we're getting smart."

Partly as a result, there has been a role reversal: The large companies project black ink for the first time in three years. And the minis are on the downswing. Oregon Steel Mills, for instance, has reported a disappointing breakeven third quarter. *Stephen Baker*

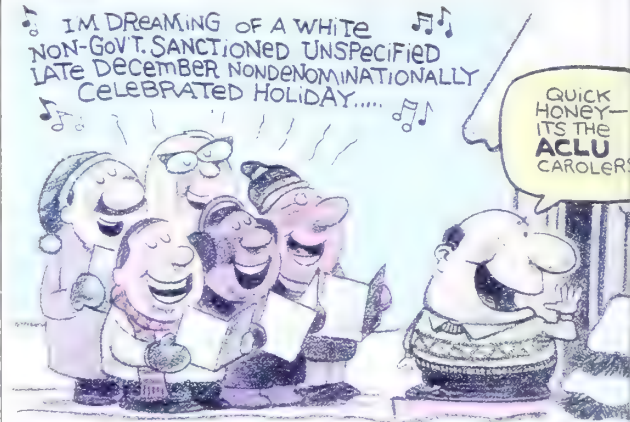


HOT STUFF: The price of scrap is up 40%.

40% in price, to a historic high of \$132 a ton, erasing the minis' edge.

Some minimill types are calling this a plot by its big rivals, which usually smelt steel from ore. Lately, though, the big guys are buying more scrap, despite the higher cost. Their purchases are up 11.2%

DRAWN AND QUARTERED



NAME GAMES

OH, YOU MEAN THAT TCI IN DENVER

What's in a name? A lot of aggravation, if it's TCI. Being mistaken for Denver-based cable colossus Tele-Communications Inc. has plagued Transaction Commu-



nications Inc. in Herndon, Va. The much smaller TCI provides the electronic link that merchants and banks use to O.K. credit-card purchases.

The cable giant has sparked controversy in the telecom world. That goes double since its proposed merger with Bell Atlantic.

A typical hassle for creditor checker TCI: A Baby Face curt denial of its plea for expedited service. Says Jack McDonnell, the lawyer Bell asked: "Why should we help you? You're the enemy." Finally, McDonnell had enough and changed his company name to Transaction Network Services Inc.

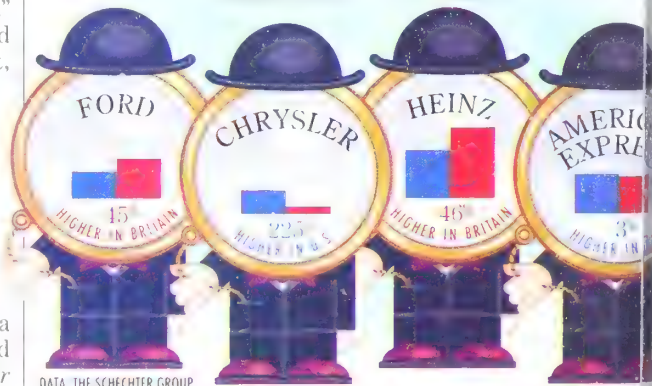
There's yet another Dallas-based Transcontinental Realty Investors, whose stock ticker symbol is TCI. But the Dallas company isn't planning to change its name. Its stock spiked up right after news of the Bell Atlantic merger.

THE BIG PICTURE

THEY SEE THINGS A LITTLE DIFFERENTLY

They may share our language, but little else. When U.S. and British consumers rated brand names of American companies, some all-American names fared better in Britannia than at home. Why? Ford Europe is headquartered in Britain. And Brits mistake long-time presence Heinz for a British-owned company. Upscale financial-services outfit American Express (despite its name) fared almost the same in each country.

APPROVAL RATING ■ U.S. ■ BRITAIN



DATA: THE SCHECHTER GROUP

Flood-damage estimate for Iowa infrastructure: Last summer: \$400 million to \$700 million. Today: \$61 million.

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the wind, the engine deliver torque when y

the wind,

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was designed with

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for five 6'2" adults.

(For anyone taller there's always the standard sunroof.)

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Here.



investigation in their safety
ing. The result is a car that



(C-Class was designed with enough headroom for anyone taller than the standard sunroof.)

its worth in the split second
need it most.

ncy Tensioning Retractors
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ones, dual air bags, rein-

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impact safety system and other innov-
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OUR TWO LEADING INDICATORS

A good economic-forecast issue requires judgment, experience, and luck. Business Outlook Editors James C. Cooper and Kathleen Madigan displayed all three last year in our annual issue on Where to Invest. Their projections for 1993 were so good that they ranked second in BUSINESS WEEK's annual survey of 50 economists. The survey has been a regular feature for decades in our Special Issue on Where to Invest. But last year was the first that economists Cooper and Madigan jumped into the fray. And this year is the first time that BUSINESS WEEK has numerically ranked the results, similar to the way team performance is measured in rotisserie baseball leagues. For each of the nine items forecast, the person closest to the actual result received a 1; the second closest, a 2; and so forth. The nine rankings were added up, the lower the total the better.

A look at last year's Economic Outlook (Dec. 28, 1992) will highlight Cooper's and Madigan's prescience. Like the No. 1 forecaster, Rosanne M. Cahn of CS First Boston Corp., the BUSINESS WEEK duo projected a first-half slowdown that would give way to a better second half, although they did underestimate the degree of the early-year weakness. They correctly said Federal Reserve policy would remain on hold throughout 1993. Why? Because the economy was strong enough to do without further cuts in short-term interest rates and because inflation was so tame that rate hikes would not be needed.

Cooper and Madigan also argued that a credible deficit-reduction plan would lead to lower long-term rates. They were correctly bullish on corporate profits despite the weak pricing climate, and they were one of the first to spot a new problem: the economy's widening trade deficit.

The investment forecasts in the 1993



MADIGAN AND COOPER: ON THE MONEY WITH CORPORATE PROFIT PROJECTIONS FOR '93

version of the Where to Invest issue were also on target. Our writers advised investors to stick with stocks, especially small company issues. We also favored Asian stocks and were bullish on municipal bonds and estate investment trusts. We underestimated, however, the strength of the bond rally and were a little bearish on gold.

To check out this year's assessments, see page 68. But here's a bit of what to expect: For 1994, Cooper and Madigan expect economic growth to pick up to a moderate, but healthy 3.2% pace, with inflation essentially unchanged from 1993.

Stephen B. Shepard

Editor-in-Chief

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BY THE YIELD GAME, I DON'T BE TIMID

regard to your story "The yield game" (Cover Story, Dec. 6), I got a mixed message. Encouraging investors to emerge "from the money-market numb" is wise, but assessing a move in money markets to 10-year U.S. Treasury notes as a "moderate risk" sounds like Caspar Milquetoast. You actually encourage the reader's aversion by making such timid judgments. Seven pages of text and charts create the impression that 8% annual yield is a big deal requiring great risk. However, many of the stock mutual funds you listed recently ("Mutual funds go fat—and investors are happy," Finance, Oct. 11) have historically returned more than 8% and with probably less cumulative risk than the income investments you note as yielding high returns. In our new low-inflation era, growth stocks sustain the advance? We'll have to wait and see, but probably yes.

Couldn't it be better for the average investor, and for the economy, if you promoted a balanced portfolio of income and growth stocks, government corporate securities, and cash? Such a portfolio provides returns from income from capital gains, yet loses most of volatility over a 10-year horizon. The average American needs more education about how time and diversity of risk. Over a moderate period, diversifying among instruments reduces all risk and can create returns better than one could readily find by holding only yield-producers. BUSINESS WEEK should provide readers that kind of balanced perspective and beat the "d" drum in a sidebar.

Clark Nickerson
Charlotte, N. C.

SMALL-TOWN TREASURERS MISSING THE BUCK?

In our article "Small towns, big losses" (Finance, Dec. 6) again points out that I feel is our society's passion with assigning the blame and not accepting our own responsibility. If the investment managers of a \$56 million and a million portfolio are deemed "naive," where lies the problem with large unexpected investment losses. How a treasurer/investment officer can be an investment that yields 400 to 500 basis points over the "risk-free" Treasury is also "risk-free" defies explanation. I mean no criticism to the treasurer, but, in all fairness, to suggest primary blame is with Government Securities Corp. is incorrect. The investor can say no and should not reach beyond their level of knowledge in hopes

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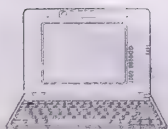


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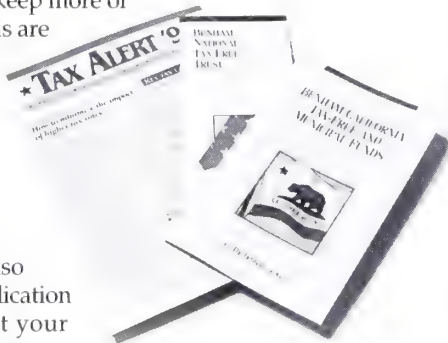
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Readers Report

of substantially enhancing their y only to cry wolf when that increme risk (for which they are compensa comes back to haunt them.

Bruce E. We
Oakland, CA

CLINTON WON NAFTA, BUT HE HAD BETTER LISTEN TO LABOR

In your commentary "The unions, pro-NAFTA Democrats: Get over it" (Top of the News, Dec. 6), I was quite in support of the position that "union leaders must abandon efforts to stop immutable economic forces." In fact, I do not agree that labor's position against NAFTA was either inappropriate or an attempt to preserve the past. It is the responsibility of unions to do everything within their power to protect the jobs of their members, whether they are threatened by capital flight to Mexico or other economic factors.

Although the labor movement was on the losing side of the NAFTA vote, President Clinton surely is aware that 60% of the Representatives from his own party voted against him. If NAFTA was indeed a "battle for the heart and soul of the Democratic Party," it appears that labor was the victor. More Democrats sided against President Clinton on NAFTA than voted against George Bush vis-à-vis NAFTA negotiations were put on a back track in 1991.

If President Clinton hopes to regain the confidence of unionized workers and their elected leaders, he must take the initiative by responding to their legislative priorities—including a ban on permanent replacement of strikers, reform of the Occupational Safety & Health Administration, and strong protection of the right of workers to organize unions.

Richard W. ...
Director of Labor Studies
Cornell University
Ithaca, NY

MORE BUZZINGS ON THE BLACK BUSINESS NETWORK

In the article "Inside the black business network" (People, Nov. 29), Andrew Brimmer states that he doesn't see why black business should have more responsibility than anyone else to improve life for blacks. I am both appalled and amazed by such an arrogant and selfish statement. The predicament of many historical African American communities today is shameful. Communities that once produced entrepreneurs, doctors, teachers, and loving families now produce bitter, misdirected youth who are creating duplicates of themselves every day. Many black pre-

als began their abandonment of their orical communities 30-plus years ago continue to do so today. Historically, youth had people like Brimmer to to for guidance and direction. The k communities that nurtured our fin-business, political, and social lead-are crying out for direction, guid-e, and love from their extended ily. If we as African American pro-otionals do not answer the call, the h and despair we see in our commu-es today will continue unending.

Nique Fajors
Harvard Business School
MBA Class of 1993
Cincinnati

was with great pleasure that I read our positive and enlightening article. a young, professional African Amer-, such an article serves as an elixir, hinging the pain I feel every day read-about and viewing episode after epi- of African American men, who look very dissimilar to me, committing es, abandoning their offspring, and eating from the challenges and op-unities that life offers.

onically, the population of individuals would stand to benefit the most i reading about the success stories ncieled in your article will never read he population I speak of are the in-city, at-risk youths who lack expo- to positive role models. I will show article to the sixth-through-ninth- le students involved in Project hback, the nonprofit, role-model pro- n I coordinate in the Philadelphia ic school system.

Gregory Davis
Philadelphia

as honored to be included in your ar- le. I found it to be a refreshing spin usiness strategies that black entre- reurs take for granted. However, e are two factual errors that I would to correct.

rst, Jerry Wexler was not an Afri- American. He was one of my closest ds and a sincere supporter of the an American diaspora. Although igration was not black, he had nited "soul."

cond, Jerry passed away in Octo- 1992. Given his outstanding career, archives should reflect this impor- fact concerning one of America's test dealmakers.

Peter C. B. Bynoe
Chairman
Telemat Ltd.
Chicago

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CRUSADE: THE UNTOLD STORY OF THE PERSIAN GULF WAR

By Rick Atkinson

Houghton Mifflin • 575pp • \$24.95

SMART BOMBS, SCUDS, AND WAY-TOO-COOL IMAGES

War, we know, is hell. But that was hard to tell during the Persian Gulf War, when censored, sanitized images of high-tech combat often displaced real news. Tens of thousands died in Iraq, Kuwait, and Saudi Arabia, among them 390 Americans, but the carnage rarely found its way to the TV screen. What persists in public memory is the war as miniseries, accompanied by the dangerous illusion that modern warfare can be, in author Rick Atkinson's words, "surgical, simple, and bloodless."

War—even the lopsided gulf war—has never been any of those things. *Crusade: The Untold Story of the Persian Gulf War* tears away the deceptive facade painted by the Bush Administration and Pentagon image-makers to provide a realistic and richly human

account of the seven-week war for oil.

Atkinson, who covered the war for *The Washington Post*, doesn't dwell on blood and guts. But neither does he flinch from them, writing of "the stench of burning hair and flesh" drifting across battlefields. Atkinson gives the Pentagon and the defense industry their due for developing an array of reliable high-tech weaponry, but he also gives the lie to the endlessly repeated television depictions of bombing missions as way-cool video games.

The fact is, hundreds of civilians were killed by so-called smart bombs, and dozens of allied soldiers were killed or wounded by weapons fired by their comrades. The military obfuscated and even lied about the capabilities of anti-missile defense: The wildly hyped Patriot was actually a dud at downing Scuds.

Yet *Crusade* is no anti-military screed. The gulf war was a rousing success for the American military, finally liberating it from the aura of defeat left over from Vietnam. The victory is compellingly recounted here, from the first stealth heart-pounding Apache helicopter raid on Iraqi radar installations in January 1991, to the battlefield rout of the Republican Guard, to the victory parade in Washington, D.C. that summer. Faced and hard to put down, *Crusade* delivers the tension and excitement of a Tom Clancy thriller—with good writing to boot.

The subtitle's promise of "the untold story" is a bit misleading. Don't expect big revelations, unless reading that General Norman Schwarzkopf often acted like a hotheaded jerk after the TV cameras shut down comes as a surprise. What has been untold until now is a comprehensive story of the war, by an author without an ideology to push or a personal ax to grind.

A Pulitzer Prize-winning military correspondent and author of the *The Long Gray Line*, a celebrated biography of the West Point class of 1966, Atkinson has extensive military contacts. In few pages of small print, he thanks near



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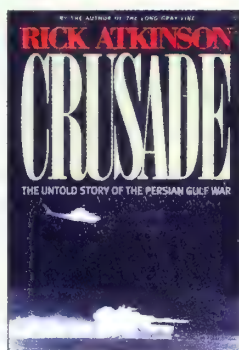
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soldiers, sailors, and men for their help. All first-hand reporting augmented by color detail drawn from reports generated by analysts who also covered the war and by Atkinson's knowledge of military history.

Atkinson has a knack for conveying drama and tragedy without resorting to cheap machismo. His most riveting when he focuses on the extremes, tragedies, and realism of individual servicemen and servicewomen. Special Forces soldiers who, because they refused to kill

the girl who discovered their hiding place, had to battle Iraqi troops in a long escape; an A-10 Warthog pilot remained overhead, covering for a downed comrade, until he, too, was shot down and killed. Throughout the book, Atkinson tracks indomitable Air Force Colonel David W. Eberly, felled by anti-aircraft fire and captured by Iraqis. He was beaten, tortured, starved, then nearly killed by allied bombing raids.

Atkinson tears away the video-game facade to show the gulf war's real carnage—and real heroism



based on cheap oil and benign monarchies wouldn't rally the nation to war, the President cast the conflict as a morality tale. Atkinson says he went too far: By demonizing Saddam Hussein as another Hitler, he inflated his foe and diminished Hitler. Although the war's aims were limited, Atkinson writes, "Bush aroused passions that would remain unsated" with Saddam still in power.

General Colin L. Powell, chairman of the Joint Chiefs of Staff, is the book's golden boy, always

making highly intelligent and politically astute decisions. Maybe that's so. But here, as in Bob Woodward's *The Commanders*, a chronicle of events leading to the war, Powell is clearly a key source, and one suspects he is being treated with kid gloves.

There are a few other flaws in *Crusade*. A glossary would have helped readers who don't know a Warthog from a Weasel. The narrative flags a bit during the ground war, when "other than surrendering or dying, the enemy was

Schwarzkopf comes off far less heroically. While never seriously questioning his soldierly abilities, Atkinson depicts him as a tyrant with a hair-trigger temper who consistently expected the worst of his subordinates. Schwarzkopf was deaf to Israeli concerns about Scud attacks—calling the missile a "pissant" weapon—and had to be pressured to devote troops and planes to hunting down Scud launchers.

George Bush also comes in for criticism. Aware that a new world order



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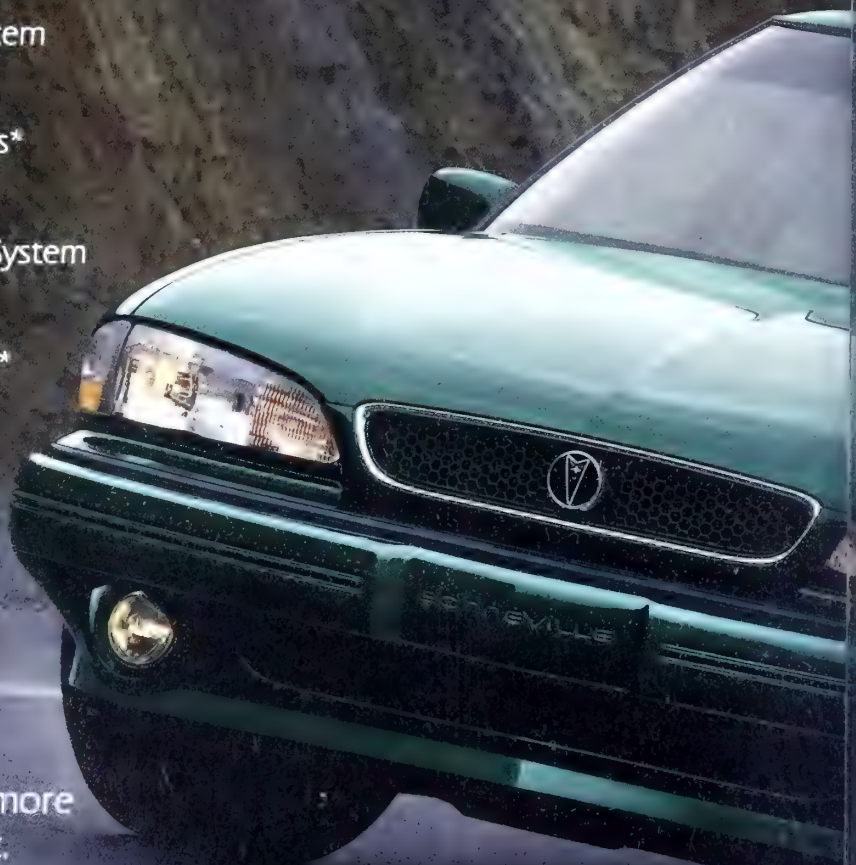
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doing little." The contributions of U.S. combatants are slighted. Atkinson doesn't even begin to add the appalling complicity of the press government censorship. Still, this is far the best book yet on what Atkinson calls "a brilliant slaughter."

BY RUSSELL MITCHELL

Correspondent Mitchell covered the war for BUSINESS WEEK.

BOOK BRIEFS

SKADDEN: POWER, MONEY, AND THE RISE OF A LEGAL EMPIRE

By Lincoln Caplan

Farrar, Straus & Giroux • 341pp • \$25

TAKEOVER TITANS

Like his three other acclaimed books on legal topics, Lincoln Caplan's *Skadden: Power, Money, and the Rise of a Legal Empire* is thorough and well-reported. Skadden, Arps, Slate, Meagher & Flom, one of America's preeminent law firms, is thorough and well-reported. *Skadden: Power, Money, and the Rise of a Legal Empire* is an exhaustive look at how the firm grew from a quirky but congenial perch for smart lawyers shunned by the legal Establishment to an oversized institution full of equally oversized egos.

To document this transformation, Caplan spent five years watching Skadden's lawyers in action. His primary focus is on the firm's mergers-and-acquisitions work, much of which was considered savory by Wall Street firms with an aversion to hostile takeovers. Led by Senior Partner Joe Flom, Skadden became powerful in the M&A field during the 1980s that companies paid huge retainers just to keep it from representing their competitors. In 1986, profits soared 10% above projections, generating a "Piggy Bank" that was divvied up by the firm's dealmakers. Flom took home an extra million. Such largess embittered lawyers who didn't share in the booty.

Caplan's revelations about Skadden's excesses are entertaining. Lawyers left their gym bags home sent private cars to get them. A "Project Capital" was set up to manage partners' money when they didn't have time to do it themselves. And associates received \$50,000 starting bonuses, often used to finance new wardrobes. But for all the attention he gives the M&A practice, Caplan fails to delve into individual deals. That's disappointing, since much of Skadden's notoriety stems from its hardball tactics.

In the end, Caplan's book collapses under the weight of excessive detail much of it inherently flat. Only legal junkies are likely to have the appetite for this much Skadden minutia.

BY LINDA HIMELSTEIN

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SCHOOL-FINANCE REFORM: DON'T GIVE UP ON VOUCHERS

MARY S. BECKER



California's recent proposal was widely criticized before its defeat. Several key arguments would make the idea more effective and fair.

The California school-finance scheme known as Proposition 174 would have given vouchers worth \$2,600 to all students to help them attend private schools if they chose. It was opposed by the two national teachers' unions, many politicians, and other groups—and soundly thrashed in a November referendum. Despite that rejection and rebuffs of related proposals in Oregon and the state of Washington, radical school-finance reform seems inevitable.

Although I supported Proposition 174 because it offered an improvement on the status quo, grave defects in voucher proposals must be remedied if they are to appeal to a strong majority of voters. The vouchers should be provided only to low-income families, since it is almost always their children who are saddled with inferior schools in the inner city. These families do not have the economic means to choose communities with good public schools, whereas middle- and upper-income families already exercise considerable choice among schools. They can move to the suburbs or city neighborhoods with good public schools, or—if they have the means—they can send their children to private schools.

Limiting the vouchers to poor families answers the valid objection that if all families are included, richer families will surely be the main users of the vouchers to send children to private school. Milwaukee has started an experimental program that gives a limited number of vouchers to children from the inner city for private-school attendance.

The present system of public-school finance is roundabout and inefficient, first taxing households to provide revenues for public schools and then indirectly returning taxes to families with children in public schools. The California voucher proposal would have directly given back some of the tax revenues to all families who chose private schools. A still better system would not only give vouchers to students from poorer families but would also require public schools to become partly self-supporting by charging all students tuition equal to the voucher level.

PRECEDENT. For example, public-school tuition would equal \$3,000 if that is the value of school vouchers. Taxes would have to cover only the excess of public-school expenditures over tuition income. There is precedent for tuition charges by public schools in the early history of common schools in the U.S. and in the sizable fees currently assessed by state-run colleges and universities.

Tuition income would help offset any reduction in government spending on public schools because of the public financing of tuition vouchers.

Such income would also make it easier for public schools to finance a continuing growth in spending on students—which more than doubled during the past 25 years.

Some voters who are fed up with public schools opposed the California initiative because they feared it would add to the deficit in the state's budget. But if vouchers were limited to poor families and if public schools charged tuition, the financial demands on state budgets might be reduced rather than increased. It would then be financially much easier to do more for the poorer students who need help the most by raising the size of their vouchers above the California proposal of \$2,600. This figure amounts to less than half of the national average cost of a student in public high school.

TAX CUT. Poorer families who continue to send their children to public schools would be financially no worse off under the proposed system than at present, since their vouchers would cover the tuition charges of these schools. It might appear that middle-class families with children in public schools would become financially strapped, since they would have to pay both tuition and school taxes. But the taxes needed to finance public schools would be reduced because these schools would now have tuition revenue. For this reason, an initial reduction in school taxes should be mandated to recognize that schools also will get revenue from tuition.

The present public-school financing system has encouraged sharp segregation of students by income, race, and other characteristics. Vouchers limited to students from poorer families would reduce this segregation because some private schools with a mainly affluent clientele would be happy to accept more students from diverse backgrounds if they brought vouchers covering part of their tuition. Even at present, segregation by race, income, and family education is much lower in Roman Catholic private schools than in public high schools.

If public schools were to charge tuition, families would determine where to send their children by comparing differences in quality between private schools and available public schools to differences in tuition. This would increase the competition between the private sector and all public schools, not just those with students who are eligible for vouchers.

This competition for students would force public schools to become better. The system of higher education in the U.S. is the world's best mainly because competition between private colleges and tuition-charging public colleges has improved the performance of both.

MARY S. BECKER, THE 1992 NOBEL PRIZE WINNER, TEACHES AT THE UNIVERSITY OF CALIFORNIA AND IS A FELLOW OF THE RAND CORPORATION.

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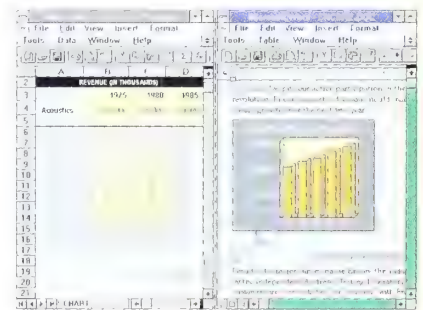
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BY GENE KORETZ

A LITTLE GLOW OF OPTIMISM FROM THE SMALL FRY

The approach of Christmas has apparently brought small businesses an infusion of holiday cheer. According to the monthly survey of the National Federation of Independent Business, its small-business optimism index surged higher in November, erasing virtually all of its decline since last January. The positive mood change has affected small-business spending plans, which seem to be finally entering a higher track (chart).

NFIB economist William C. Dunkelberg notes that some 17% of respondents now expect the economy to improve over the next six months, nearly double the 9% low hit in August. And 12% think it's a good time to expand,

SMALL BUSINESS RAISES ITS SPENDING SIGHTS



the highest November reading since 1989. Moreover, 34% reported higher sales during the past three months, compared with 23% reporting declines.

"What's significant about these numbers is not that they're anything to write home about," says Dunkelberg, "but that they seem to be encouraging many small firms to boost investment."

While most small businesses say they are satisfied with their inventory levels, for example, 17% now plan to add to stocks in the months ahead. "At a time of year when many businesses usually want to trim inventories," says Dunkelberg, "that's a solid swing into positive territory." More important, nearly 35% of the businesses surveyed in November say they plan to make capital outlays in the next six months—the highest monthly tally since early 1989.

Meanwhile, on the job front, small

businesses have now registered small net increases in employment for six out of the last seven months. Dunkelberg adds that 14% plan to add more workers in the months ahead, compared with 10% that expect reductions—"a number that points to a pickup in hiring if the economic news remains good."

The catch to this positive picture, cautions Dunkelberg, is that spending plans could still be cut back sharply if the economy falters. "Small business was even more optimistic late last year," he notes, "but it didn't last."

AFFLUENT, DUAL-INCOME FAMILIES GET CREAMED BY THE FEDS

Although many Americans posted ascendant real income gains in the 1980s, one positive development was the emergence of a significant number of affluent dual-income households earning over \$100,000. Now, economist Michael R. Englund of MMS International warns that recent increases in federal tax rates imposed on upper-income taxpayers may well throw this trend in reverse. In many cases, he says, lower-wage spouses in such families are likely to find that their earnings are subject to a marginal tax rate of 60% or higher.

Take a dual-income household with two kids, one spouse earning \$110,000, and the other \$55,000. Not only does such a family face a marginal federal income tax rate of 36%, says Englund, but the lower-wage spouse must also pay a tax bite of 7.65% for Social Security and Medicare. And the phaseout of itemized deductions and personal exemptions should add an additional 4% to the tax rate. Factor in a state income tax of 8% on high-income families, and you wind up with a 55%-plus marginal tax rate on the wages of the lower-income spouse.

That's not all. Englund figures that such a family spends about \$15,000 a year on day care, home cleaning, laundry, and other costs that would be avoidable if one spouse decided to stay at home. That means the lower-earning spouse comes out just \$10,000 ahead after taxes and home maintenance costs—a calculation that implies an effective marginal "tax rate" of over 80%.

If such considerations induce a lot of women to withdraw from the labor force, says Englund, the government's tax take could take a hit. Although households reporting \$100,000-plus incomes represent just 3% of the U.S. population, they provide a hefty 34% of government revenues.

WHY CUTTING THE DEFICIT MAY NOT BOOST INVESTMENT

It's an appealing argument. As debt reduction lowers the government's borrowing needs, interest rates decline and foster a surge in capital spending, which offsets the negative impact of fiscal restraint on the economy. But in trouble with this thesis, contends economist Steven Fazzari of Washington University in St. Louis, is that the impact of lower interest rates on capital investment is highly exaggerated.

Fazzari bases this view on a study published by the Jerome L. Economics Institute of Bard College, which he analyzes the behavior of some 5,000 manufacturing companies from 1971 to 1990. His findings indicate that interest rates alone had a very weak effect on business investment.

Far more potent determinants of investment, reports Fazzari, particularly for the 60% of companies in his sample exhibiting average or rapid real growth, were the prospects of rising demand and the strength of internal cash flow. And this group of companies, he notes, accounted for 75% of capital outlays. The biggest rises in research and development spending, employment growth, and stock market valuation.

Fazzari concludes that while debt reduction may be desirable for other reasons, it is more likely to inhibit business investment by slowing economic growth and hurting cash flow than stimulate it via lower interest rates. Policymakers want to bolster capital spending, he says, "they would do better to directly enhance aftertax cash flow through such measures as accelerated depreciation, investment tax credits, and lower corporate tax rates."

GLOBAL RECOVERY: TAKING THE PULSE OF THE BOURSES

If stock markets are one of the most reliable leading indicators of economic activity, the near-term chances of any swing in the global economy may be fading a bit. Morgan Stanley & Co. reports that 18 of the 22 developed stock markets that it monitors registered declines in November in both local currency and dollar terms. European stocks as a whole fell 2.3% in dollar terms, while Japan's market plunged 16.6%, compared with a 0.9% dip in the U.S.

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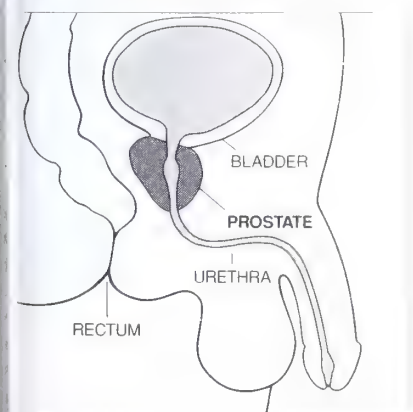
However, it is important to know the following: PROSCAR doesn't work for everyone. Even though your prostate may shrink, you may not see an improvement in urinary flow symptoms. And you may need to take PROSCAR for 6 months or more to see whether it helps you.

How PROSCAR can shrink an enlarged prostate.

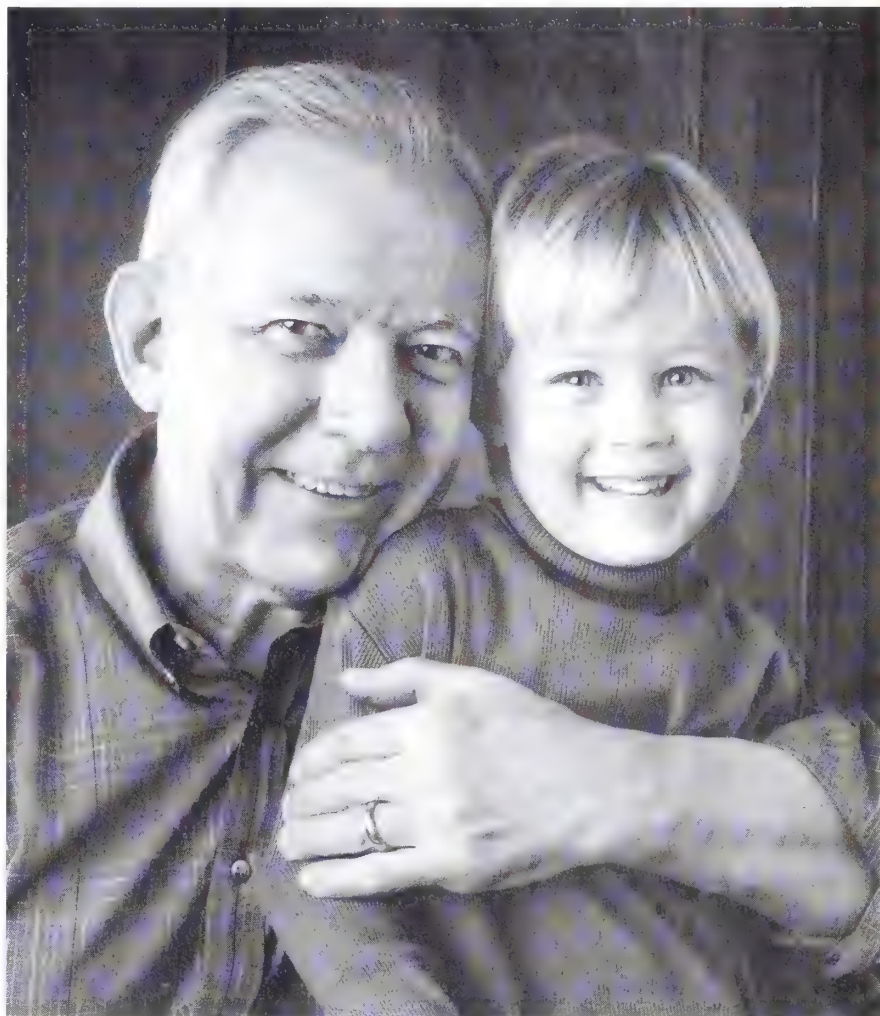
As a man ages, a key hormone can help cause the prostate to grow. PROSCAR actually blocks the production of this hormone, so it helps shrink the prostate to a smaller size in many men. As a result, some men treated with PROSCAR experience an increased urinary flow and an improvement in urinary symptoms.

Why you should see your doctor soon.

Your doctor has several options for the treatment of symptomatic BPH: watchful waiting (monitor-



prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.



ing the condition with regular checkups), medication, or surgery. It's important to see your doctor because the problem doesn't usually get better by itself. In many cases, the prostate continues to enlarge and the symptoms may get worse. So if your urinary symptoms are bothering you, have your family doctor or a urologist assess your condition and ask if PROSCAR is an appropriate treatment for you.

It is also important to have regular checkups. While benign prostate enlargement is not cancer and does not lead to cancer, the two conditions can exist at the same time.

Remember, only a doctor can evaluate your symptoms and their possible causes. So, if your urinary symptoms are bothering you, don't wait any longer. You may find that your enlarged prostate can be made into a smaller problem.

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Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

• **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.

• **Medication.** Your doctor may prescribe PROSCAR for BPH. See "What PROSCAR does" below.

• **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

• **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.

• **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

• **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.

• **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.

• A warning about PROSCAR and pregnancy.

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.



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When you join, you will help establish natural rain forest barriers to stop further burning and support on-site conservation management plans to protect threatened forests. Each and every second, a rain forest area the size of a football field goes up in smoke. You'd better call now.



The National Arbor Day Foundation

Call Rain Forest Rescue NOW!
1-800-255-5500

CONSUMERS CAN'T GO ON LIKE THIS. CAN THEY?

Although the official numbers will not be available for another month, solid fourth-quarter economic growth of 4% or better is now generally taken for granted by policymakers, most economists, and the financial markets. The new question: Just how much will the economy slow down in the first quarter of 1994? The answer will have important consequences for Federal Reserve policy and interest rates.

The popular view right now is that consumers will be able to take a breather, after a run of spending in the second half of 1993 that outstripped their incomes and depleted their savings. Add in higher taxes and the recent increase in installment debt, and you have the makings of a consumer retrenchment that will drag down growth.

Or do you? Consumers may not need as much rest as you think. As yet, they show no sign of tiring. Retail sales rose 0.4% in November, following an upwardly revised 1.8% surge in October. Retail sales have now risen for eight consecutive months, driven by a pattern of strong demand for cars and housing-related goods. In particular, furniture stores reported a 3.7% surge in receipts in November, the largest gain in more than two years.

In fact, while sales of furniture and appliances make up only 6% of total retail sales, they contributed about half of the overall November sales increase. And during the past six months, purchases of all durable goods have accounted for 70% of the growth in retail receipts. So far in the fourth quarter, inflation-adjusted sales are rising even faster than they did in the third quarter (chart). The numbers thus far easily support the claim of 4% growth in real gross domestic product, with an increasing chance for 5%.

DO MORE CARS
BEHOLD,
DO MORE CARS
BEHOLD
Judging by sales of cars and light trucks, consumers maintained their strong buying pace in December. Sales began the month at a 12.5 million annual rate—7.1 million for cars and 5.4 million for light trucks. That's only slightly below the 12.7 million pace for all of November, which was the best in almost three years.

Little wonder, then, that the makers of cars and trucks were the busiest in years. In November, a 12% jump in car production and a 6% jump in truck production led a steep

0.9% advance in industrial production, the sixth consecutive increase. In addition to cars, other consumer durables, business equipment, and materials posted big gains.

In manufacturing alone, output rose 1%, continuing a pattern of acceleration in recent months (chart). Vehicle output accounted for about half of the November gain. Manufacturing production is on track to post its largest quarterly advance in 6½ years.

THEY'RE SHOPPING —BUT NOT DROPPING

Will this momentum subside in the first quarter? Not if consumers have their way. A close look at incomes, savings, and borrowing suggests that households have the wherewithal to keep spending.

To begin with, income growth remains sturdy. Flood and drought losses clobbered farm income during the third quarter, but the other 99% of real personal income was up at a 3.3% pace. That's not far below the 4.4% gain in real consumer spending. In fact, from March to October, inflation-adjusted consumer outlays rose at an annual rate of 5.4%, while nonfarm income increased at the same pace. So where's the income problem?

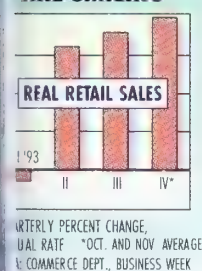
Starting the fourth quarter, October real income stood some 2.5% above its third-quarter level, at an annual rate. And judging by strong November growth in employment and weekly earnings, combined with low inflation, higher income in that month pushed up the quarterly growth rate even more.

The argument that households are draining their savings is also flawed. During the past six months, the personal saving rate has fallen from 4.9% to 3.7%. That has more to do, however, with the way the Commerce Dept. measures savings than with reality.

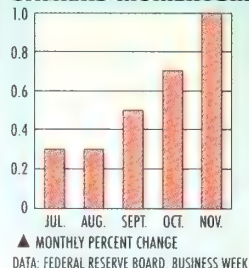
The problem is that consumer spending in recent months has been concentrated in big-ticket durable goods, such as cars, furniture, and appliances. Although these items are usually financed, Commerce includes the full price of the goods in its measure of spending. That causes spending to be overstated relative to income.

What muddies the water is that Commerce simply imputes savings by subtracting spending from income. So during periods of heavy outlays for high-priced goods, less income appears to be left over after spending. So savings tend to be understated. In fact, the boom in mutual

WHY RETAILERS ARE SMILING



FACTORY OUTPUT GATHERS MOMENTUM



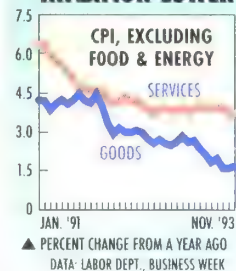
Business Outlook

funds and other financial assets suggests that households' nest eggs are much plumper.

Moreover, the sharp increase in consumer borrowing does not mean that households are throwing caution to the winds. Stronger job growth, benefits from mortgage refinancings, and rising confidence are behind the decision to take on more debt.

Most recently, coming on the heels of the big November gain in the Conference Board's index of consumer confidence, the University of Michigan's index of consumer sentiment showed a sizable rise for early December as well—to 87.7, from 81.2 in November.

GOODS PRICES DRIVE INFLATION LOWER



From July to October, consumers added more than \$19 billion to their installment debt—the most in any three-month period since the borrowing heyday of the mid-1980s. The three-month average of the ratio of debt to aftertax income, however, is no higher than it was a year ago. Borrowing, while accelerating, is not outstripping income growth.

Consumers' increased use of plastic is one reason the holiday sales look bright. According to MasterCard, store authorizations for credit purchases since Thanksgiving have soared nearly 21%, compared with the same period last year. MasterCard's data run through Dec. 10.

INFLATION IS APT TO STAY IN CHECK

Another support for consumers: Low inflation continues to stretch the buying power of their incomes. The good news for 1994 is that inflation is not likely to accelerate from its 1993 pace (page 68).

The consumer price index rose a mild 0.2% in November—0.3% excluding food and energy. Annual consumer inflation through November is 2.7%, and the rate for all of

1993 will end up even lower. Falling oil prices will likely leave December's CPI unchanged from November.

Most of the progress against inflation in 1993 has come in goods prices (chart). Excluding the volatility caused by swings in energy and food prices, annual goods inflation in November was running at a mere 1.6%, with service inflation at 3.7%. Service inflation is probably headed down in 1994. In particular, just the threat of cost containment has already pushed medical inflation down to 5.5%—lowest annual pace in two decades.

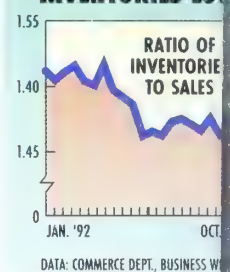
Low inflation is also making it easier for businesses to manage their inventories, since purchasers need to worry less about unanticipated price shocks. Business inventories were unchanged in October, and they are at a 10-year low in relation to sales, which rose 0.4% (chart). Lean stock levels are a good sign that production will keep on moving up during the first quarter. Better inventory control also reduces costs.

Moreover, pressure on goods prices is likely to be muted. Industry's rate of capacity utilization rose from 82.4% in October to 83% in November. That reading is the highest in more than four years and is close to mid-80% reading associated in the past with production bottlenecks and price pressures.

But a steady stream of cheaper imports and expanded capacity abroad will keep prices of domestically made goods in check. And because of impressive productivity gains, factory unit labor costs are falling.

With everything going their way, consumers are likely to continue to pull their own weight in early 1994. If any slowdown in growth will be limited. And unlike the economy's swoon in early 1993, the new year is set to get off to a good start.

BUSINESSES KEEP INVENTORIES LOW



THE WEEK AHEAD

CAPITAL SPENDING

Tuesday, Dec. 21, 8:30 a.m.

The Commerce Dept.'s first look at 1994 spending plans for new plants and equipment will probably show that businesses expect to increase capital budgets by about 7%, the same rise in outlays as for 1993. The need to improve productivity is pushing companies to spend heavily on equipment. Service companies will probably raise their spending by at least 10%, with the bulk of the money going for computers.

FEDERAL BUDGET

Tuesday, Dec. 21

The federal government will probably record a \$39 billion deficit for November.

That would be much worse than the \$32.7 billion deficit posted in November, 1992. Economists, in general, though, expect that faster economic growth and the Clinton tax hikes will combine to push the federal deficit down to below \$225 billion in fiscal 1994.

DURABLE GOODS ORDERS

Thursday, Dec. 23, 8:30 a.m.

New orders taken by durable-goods manufacturers likely increased 1% in November, according to the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. Orders have already risen for three consecutive months, including a 2.6% gain in October. The string of increases suggests that the backlog of unfilled or-

ders may also have risen in November after falling for eight straight months.

PERSONAL INCOME

Thursday, Dec. 23, 8:30 a.m.

Personal income likely rose 0.5% in November, forecast the MMS economists. That's suggested by the healthy gain in jobs and weekly pay last month. Consumer spending is also expected to post a 0.5% advance in November. Retail sales alone were up 0.4%, and cold weather probably lifted utility use. In October, personal income rose 0.6%, while consumer outlays increased a large 0.8%. The November projections indicate that both real income and spending are on track to grow at annual rates of nearly 3% in the fourth quarter.

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DECEMBER 27, 1993

READY, AIM...

**POLITICIANS ARE PRESSING ANTIGUN
BILLS. WOE TO FIREARMS MAKERS**

The hottest place in Miami right now may well be the Tamiami Gun Shop, one of the city's largest firearms dealers. Days, nights, and weekends, customers crowd the store. "We're selling a lot of handguns, we're selling a lot of automatic weapons, we're selling a lot of ammunition," says John Katon, Tamiami's owner. What's driving the stampede? Talk of gun control. "What they just did with the Brady Bill, that's bad enough, but now they're talking about more and more," says Katon.

It wasn't the intention, of course. But by signing the Brady Handgun Prevention Act into law on Nov. 30, President Clinton sparked a boom in gun sales across the nation. Supporters hoped that the bill's five-day waiting period would slow the arming of America. Instead, business for gun stores, distributors, importers, and manufacturers has taken off, as purchasers rush to beat a raft of federal and state weapons-curb proposals given new viability by the Brady legislation. Americans may say they support gun control—but just now, they're "wondering whether or not they'll be able to get a gun and whether it will cost more," says L. E. Shultz, president and chief executive of Smith & Wesson Corp., the nation's largest maker of handguns.

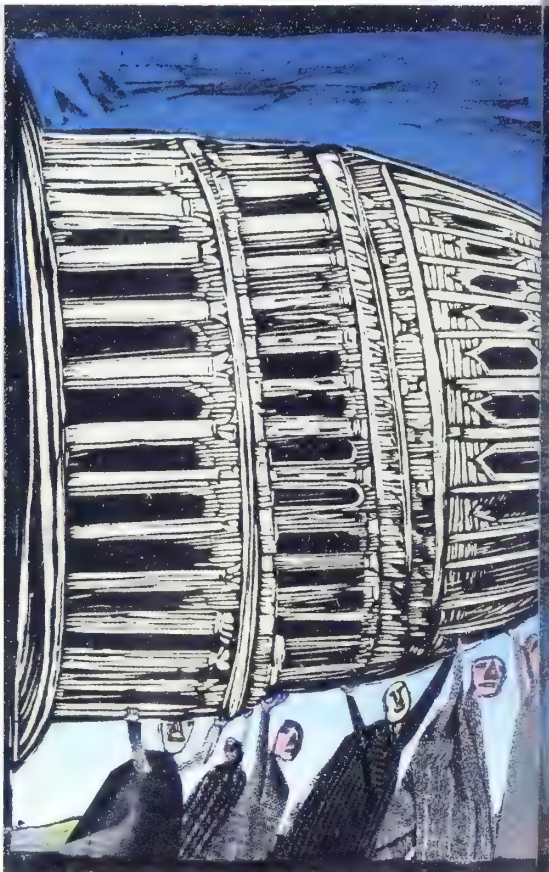
In all, commercial gun sales will rise 6% this year, estimates the National Alliance of Stocking Gun Dealers, a trade group. And it's not just a rush to beat gun-control laws that has sales on the rise. Heightened fear of crime—graphically illustrated by the Dec. 7 killing rampage on the Long Island Rail Road—is leading many to buy a gun for the first time or add to their arsenal. John McCrory, who owns a small metal-fabricating company near downtown Miami, is a typical buyer. "We had an armed robbery down the street," he says. "We had a knifing in the parking lot. Stuff like that." So McCrory, who already owns several rifles, is getting a permit to carry a concealed weapon. And he wants to buy two .40-caliber handguns made by a Brazilian manufacturer.

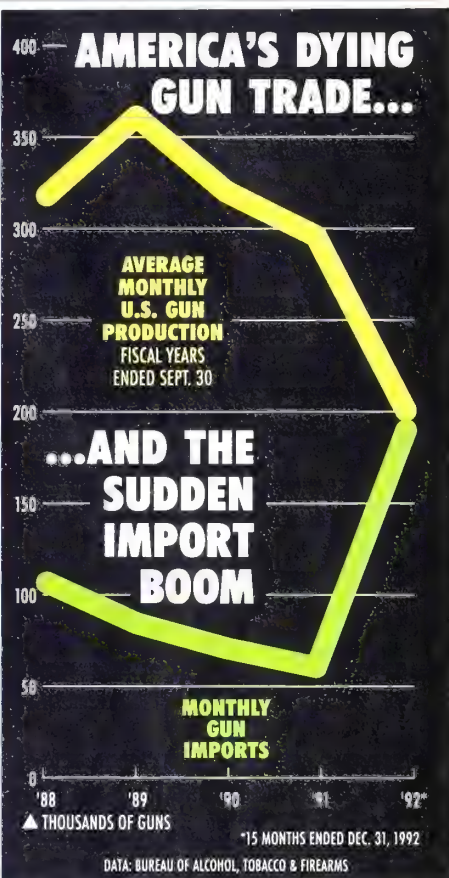
POLITICAL PRESSURE. In truth, though, the U.S. gun business is an industry in structural decline. Pummeled by a combination of outdated technology and foreign competition, the industry has slashed production of pistols, rifles, revolvers, and shotguns in the U.S. by nearly a third since 1989, to a little more than 3 million units in 1992 (chart). And despite a surge of cheap, military-style rifles from China and Eastern Europe in the past two years, experts say imports face pressure, too. "The long-term trend

has been down," says George Rockwell, a former executive with Remington-Union Arms Co. and U.S. Repeating Arms Co. and now a contributing editor at *Arms Business*, an industry newsletter.

The secretive, disparate arms industry peaked in the late 1980s. As military sales tapered off, the small, privately owned companies that make most U.S. guns lacked the capital to withstand weaker demand, much less modernize aging production lines. "We stopped investing in firearms technology in 1968," says Richard Feldman, executive director of the American Shooting Sports Council, an industry lobbying group. Political pressures, meanwhile, forced many makers to abandon lucrative handgun

Washington doesn't want to give the industry any breathing room. On Dec. 10, President Clinton asked Attorney General Janet Reno to investigate nationwide licensing of gun owners. Senator Bradley (D-N.J.) wants to impose a 10% tax on handguns, assault weapons, and ammunition. And Senator Dianne Feinstein (D-Calif.) is proposing an outright ban on 19 assault weapons and clip-on magazines holding more than 10 rounds of ammunition. The U.S. must "end this epidemic of violent crime and restore the fabric of civilized life in every community," Clinton said in a Dec. 11 radio address.





s a highly emotional attack, and an anxious one for the gun industry. In the Brady Bill was just the first in a broad-gauged assault on weapons. And several of the post-Brady measures may become law. That's partly because the National Rifle Assn., after its attacks this year on Brady and in state legislatures in Virginia and Connecticut, is changing its strategy of all-out opposition to every antigun measure. The organization "is adjusting to accommodate public opinion now," says one lobbyist who tracks gun issues.

IMPORTS. The NRA, for example, is a provision in pending crime legislation that bans possession of handguns by juveniles. And the group is not likely to let up much of a fight over reforms in dealer licensing and a ban on possession of guns by accused spouses or abusers. The NRA will save its fire for instead for the next major showdown in gun politics: the assault-weapons ban. Privately, some gunmaker executives say they support such a ban, but the NRA fears that passage of Feinstein's prohibition would open the gate to outright bans on other firearms.

Indeed, such legislation eventually will strike directly at the one segment of the gun business that has grown phenomenally: cheap semiautomatic im-

ports. Some 400,000 Chinese SKS weapons, which cost about \$69 in stores, were imported in 1992, estimates *Firearms Business*' Rockwell. KBI Inc., a Harrisburg (Pa.) importer of Hungarian-made assault rifles, says it sold a six-month supply of 5,000 rifles in a day and a half at a recent gun show after the manufacturer announced it was closing out production in the face of possible bans on such weapons.

Amid all the debate over high-powered handguns and so-called "assault rifles," though, manufacturers of specialty hunting guns and collectible pistols are prospering. Sales at Sturm, Ruger & Co. in Southport, Conn., a maker of guns favored by collectors, are up by more than 20% this year. Sales at 125-year-old rifle maker Marlin Firearms Co. and shotgun manufacturer O. F. Mossberg & Sons Inc., both in North Haven, Conn., are also growing. That has drawn the interest of investors such as New York-based investment boutique Clayton, Dubilier & Rice Inc., which paid an estimated \$300 million to DuPont Co. for Remington Arms on Dec. 1.

The new players face growing pressure from Washington. Bradley and Senator Daniel Patrick Moynihan (D-N.Y.) may include firearms and ammunition taxes in any health-care-reform package

as part of the funding for a new system. In the end, though, it's far from clear how much impact such proposals will have on the violence epidemic. Skeptics abound, especially since there already are 200 million guns in circulation. Indeed, regular Gallup polls demonstrate no decline since the 1950s in Americans' desire to own guns. Democrats are "using the political facade of gun control to mask over liberal tendencies to pamper the criminals of the country," declares Senator Larry E. Craig (R-Idaho).

Still, the White House stands to benefit from its attacks on guns: Polls show such a position is popular. They also show that crime is an even higher voter priority, and the Democrats are addressing that issue as well: The pending crime bill could put as many as 100,000 new cops on beats across the nation. What's more, trends already in motion will help the Clintonites. The violent-crime rate fell by 3% in the first half of this year and rose only 1% in 1992—the slowest rate of increase in five years, according to the Federal Bureau of Investigation. That statistic may do as much as anything to drive whatever growth is left out of the nation's gun industry.

By Tim Smart in New Haven and Catherine Yang in Washington, with Mike Seemuth in Miami and bureau reports

Commentary/by Douglas Harbrecht

GATT: 'IT'S YESTERDAY'S AGREEMENT'



When it comes to trade policy, there's no mistaking Bill Clinton's vision. "We cannot turn away from the future," he says again and again. For the President, that translates into aggressive efforts to open markets abroad for the high-tech and service industries he wants to nurture at home. The strategy, Clinton believes, will produce high-paying, export-related jobs for the 21st century.

What, then, to make of the world trade accord reached in Geneva on Dec. 15? The President says the pact, negotiated under the auspices of the General Agreement on Tariffs & Trade, "sharpens our competitive edge in areas of America's strength." That's putting the best face on a deal that actually offers precious little for the industries of America's future.

The major achievement of the GATT deal is an agreement to slash tariffs on 8,000 categories of manufactured goods. That will help many old-line industrial concerns. But the accord sidesteps critical issues. It fails to open up financial markets and promote the export of movies and other entertainment. The patent protection offered to the drug industry is disappointing. And chipmakers don't get the tariff cuts they had hoped for. Indeed, seven years of dithering has produced a musty agreement focused on old skirmishes rather than on flash points of future global competition. "It's yesterday's agreement," says Gary Hufbauer of the Institute of International Economics.

GIN TONIC. For all its shortcomings, the deal will promote worldwide economic growth. Economists estimate that it will boost world output by \$270 billion a year in 2005 and may create millions of U.S. jobs in the next decade. A collapse of the talks could have been disastrous psychologically for recession-racked economies in Europe and Asia.

And there are some big winners. The tariff cuts will create export windfalls for makers of industrial machinery such as Caterpillar and Deere, big agribusinesses such as Cargill, mega-construction companies such as Bechtel Group, paper manufacturers, and makers of distilled spirits, furniture, and toys. But these are hardly the employers Clinton is counting on for America's economic security.

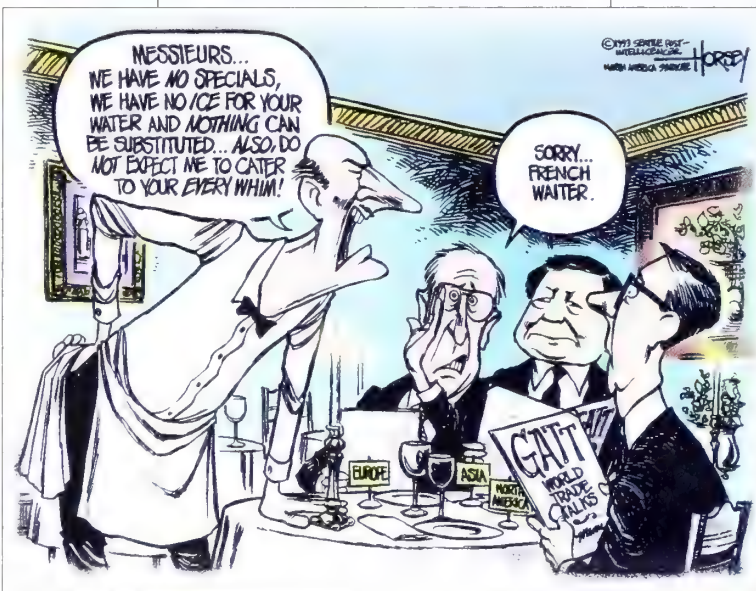
Contrast their fate with that of the booming U.S. service sector. A major reason Washington agreed to launch

gether at the end of the negotiation

Other export-driven industries such as pharmaceuticals, telecommunications, and aircraft saw only wimp gains and some big negatives. Drug companies are worried about a decade-long phase-in of patent protections that could leave their products defenseless to pirating in Third World countries. "The billions of dollars pharmaceutical companies lose to patent pirates will continue for 10 years," worries Steve Berchem at the Pharmaceutical Manufacturers Assn.

Even the semiconductor industry, which is largely satisfied with the final details, had to make a significant trade-off: a tariff cut on Europe, from 14% to 10%, rather than the zero tariff it wanted.

QUESTIONS. By caving in to intransigent trading partners unwilling to upset the status quo, U.S. negotiators raise questions about how successful they will be in future trade talks. Such negotiations will have to deal with the currently unresolved issues as well as even more nettlesome topics that have arisen since



the GATT round in 1986 was to open foreign markets to these companies. But banks and securities firms made scant headway in their efforts to crack Japan and Korea. Washington agreed simply to keep talking about the issue for another two years.

The entertainment industry—one of the largest U.S. exporters—was equally frustrated. Unable to budge the French and other European countries from their quotas on foreign broadcasting, U.S. Trade Representative Mickey Kantor yanked the issue alto-

gether. The Administration, for example, hopes to begin talks with Asian countries next year on eliminating "invisible" trade barriers, such as the Japanese *keiretsu* system and administrative procedures that hamstring the sale of foreign products. The Clintonites are also hoping to tackle the links between trade and everything from the global environment to human rights to antitrust policies.

It's an ambitious agenda. But trade issues, like America's economy, are getting more complex and subtle. The Administration has recognized that the U.S. economy has evolved. Now, it has to try once again to craft global trade talks that reflect the new economic reality.

The pact may help old-line manufacturing companies—but it offers little to America's future industries

Harbrecht covers trade issues for BUSINESS WEEK in Washington.

HIS GIVE-AND-TAKE MAY ACTUALLY FLY

United's tentative pact trades employee ownership for concessions



RE: THE DEAL CUTS LABOR COSTS—AND ADDRESSES THE THREAT FROM UPSTART AIRLINES

You can say one thing about United Airlines Inc.'s unions: They don't give up easily. After more than seven years and at least four failed attempts, United's pilots and machinists finally persuaded the airline's management to give them a majority of the company's stock.

The tentative deal, reached on Dec. 10, gives the two unions a minimum of 53% of United's stock, with a possibility of 63% after a year, according to negotiators from both sides. In exchange, United members will extend \$5.5 billion in concessions for nearly six years. The unions get one board seat each and effective veto power over most major decisions.

The agreement also calls for the creation of a new "airline within an airline," which will match the lower pay scales and relaxed work rules of upstart competitors such as Southwest Airlines Co. The unit, dubbed U2, will operate quick turnaround flights of less than 750 miles using equipment and personnel more efficiently. The unions have agreed that the unit can be expanded to accommodate up to 20% of United's current capacity. The deal between United and its unions still must be approved by United's board, but if it flies, it will force big changes in the airline industry. Other

big carriers will have to scramble to match United's lower costs, and some may conclude that they, too, need an employee buyout. "It will be hard for other airlines to escape doing what United has done if they want to have a future," says Joseph R. Blasi, a management professor at Rutgers University.

The United agreement came together after days of nearly around-the-clock talks that began in New York on Dec. 10.

"It will be hard for other airlines to escape doing what United has done if they want to have a future"

Previous sessions had broken off in November after United rebuffed the unions' bid of \$165 a share for 60% of the company, calling it too low. United then angered unions by selling off its flight kitchens, which employ 5,200 members of the International Association of Machinists. But not long after the break-off, CEO Stephen M. Wolf asked the unions to try again.

What made the deal work this time?

The two sides bridged their differences by breaking the buyout into two parts. The unions will get only 53% of the company when the deal closes. But they increased the cash, debt, and preferred shares they had offered from \$65 a share to \$88. As a result, United shareholders will receive a total package of \$173 a share, factoring in the value of the United shares they'll keep. In return, Wolf agreed that the unions' ownership will climb to 63% after a year if United's stock price hits certain targets.

Although the unions will be the majority owners of the country's No. 1 airline, they won't be in total control. While employees will hold three board seats, nine other directors will be independent or elected by public shareholders. However, extensive governance provisions give the unions effective veto over most major decisions, including mergers, consolidations, acquisitions, and large asset sales. Wolf and President John Pope are expected to leave when the deal formally closes next spring. The unions say Wolf will be replaced as CEO by former Chrysler Corp. Vice-Chairman Gerald Greenwald.

The buyout still faces hurdles, however. In addition to the board, which was scheduled to hear details of the offer on Dec. 16, union members and United shareholders also must approve the deal. Another potential problem: The unions must bring the flight attendants union back into the talks. The attendants had dropped out of the negotiations in October but now want back in. Reaching an accord "is a critical first step, but there's still a long way to go," says Eugene J. Keilin, an investment banker at New York-based Keilin & Bloom who led the talks for the Air Line Pilots Assn.

The question now: How will most of United's rivals ever match the employee-owned carrier's new cost structure? Under the deal, United's labor costs will be slashed by around 15% and will stay at those levels for almost six years. And because employees are the majority shareholders, they will have an incentive to take further cuts to keep competitive. Both American Airlines and Delta Air Lines have been trying to get their employees to lower wages and alter work rules—with little luck so far. Now, they will have to move quickly to avoid being undercut.

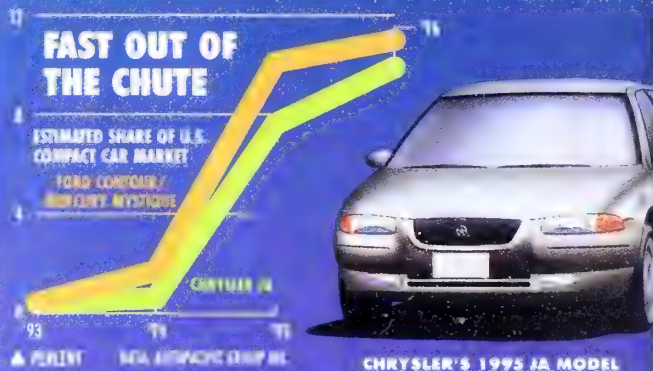
The unions' effort at United could have an effect beyond the airline industry as well. The deal "will decisively expand the role of employee ownership in large American corporations," predicts Blasi. For now, though, the main shockwaves will be in the airline industry. And the effects there are going to be plenty explosive.

By Aaron Bernstein in New York and Kevin Kelly in Chicago

DETROIT



FORD'S 1995 MERCURY MYSTIQUE



DETROIT BEGINS TAILGATING JAPAN'S SMALL SEDANS

Can its new models make a dent in the Accord and Camry markets?

There could be some anxious-looking Japanese auto executives strolling the aisles at the big annual Detroit auto show in early January. That's because Ford Motor Co. and Chrysler Corp. are ready with hot new models that take dead aim at a Japanese stronghold: small sedans. If the new cars do anywhere near as well as analysts expect, they could be Detroit's most ambitious effort ever to wrest back market share lost to Japan.

The new small Fords and Chryslers aren't due in U.S. showrooms until next fall, but they already look like winners to car watchers. They'll have to be to gain the 10% to 11% share of the compact-car market projected for each of them by 1996 (chart). The U.S. cars are up against such respected competition as Honda Motor Co.'s Accord and Toyota Motor Corp.'s Camry.

TEST DRIVE. Indeed, Japanese models command more than 40% of the 2.3-million-unit market for compact cars. Going after those sales with a vengeance, says Christopher Cedergrén, an analyst with AutoPacific Group Inc. in Santa Ana, Calif., "is a direct attack on [Japanese carmakers'] pocketbooks."

Ford has bet a bundle on its new cars, called the Ford Contour and Mercury Mystique in the U.S. and the Mondeo in Europe. The auto maker spent \$6 billion developing the models' new high-tech 4- and 6-cylinder engines, slick new automatic and manual transmissions, and three distinct body styles. The European version, on sale since March, already has attracted 300,000 orders in a slumping market. "It's a superb automobile," says Theodore Shasta, an analyst with Loo-

mis, Sayles & Co., an institutional investor that owns big stakes in all three Detroit auto makers. Shasta should know: He put the Mondeo through its paces at up to 140 miles per hour.

Chrysler's approach is more modest. It is spending \$900 million on its cars, code-named the JA line. Chrysler and Dodge versions will come first, with a Plymouth variant due as soon as six months later. All three will share engines and transmissions with other Chrysler products, such as the Neon subcompact. But they have all-new chassis employing the same innovative "cab-forward" styling pioneered by the suc-

New models will range from about \$13,000 to \$16,000—a \$2,000 to \$5,000 advantage over Japanese models

cessful LH sedan. This approach gives the JA as much interior space as a much larger Taurus—a big plus for the young families these cars target.

The new models almost certainly will beat Japanese rivals by a wide margin on price. Company officials say stickers will range from about \$13,000 to \$16,000. That will translate into a \$2,000 to \$5,000 advantage over comparably equipped Japanese models, whose prices have shot up because of the strong yen. The entry-level JA, expected to come with a \$13,000 sticker, for instance, will have such standard goodies as air conditioning and a

radio. A similarly equipped Accord goes for more than \$16,000. Cedergrén figures the new Detroit models will help lop two points off the Accord's share of the compact-car market by 1996, cutting it to 13% in the U.S.

In keeping prices so low, Ford may be running higher risks than Chrysler. Indeed, analysts believe that Ford would be able to recoup its \$6 billion investment, even if it can sell close to 700,000 annual capacity for the new cars worldwide. Chrysler, by comparison, spent just \$4.2 billion in recent years to develop three distinct car lines: JA, Neon, and Neon. That includes developing the same number of new engines and transmissions as Ford, plus outfitting manufacturing plants. As a result, Chrysler "can just stomp all over the Mondeo from a cost perspective," says Shasta.

STEPPING ON THE GAS. Caught in a crossfire along with the Japanese could be General Motors Corp. Its compact cars, such as the Pontiac Grand Am, are far less sophisticated than most rivals' models. To stay in the game, GM has kept a lid on prices and pushed value in its ads. For instance, the Grand Am's base price remains unchanged for 1995 at \$12,999, even though the car gets a new standard driver's air bag. A peppier, 150-horsepower base engine is due for 1995. All that should keep sales humming at 200,000 annually, says Jim G. Middlebrook, Pontiac general manager. "No one is going to unseat us so fast."

Of course, Japanese auto makers aren't going to roll over and play dead either. Take Toyota. It is doubling capacity at the Kentucky factory that builds Camrys, to 440,000 cars annually. Analysts expect it and other Japanese companies to continue to cushion against sticker shock by aggressively pushing lease deals with low monthly payments.

But Chrysler and Ford clearly are a roll. And they've got a bead on Japanese bread and butter.

By David Woodruff in Detroit

THE DEAL FROM HELL' EARNS ITS DENOUEMENT

nally assertive Paramount board sets a one-round, sealed-bid auction

For someone enmeshed in a grim takeover battle, Sumner Redstone seemed almost giddy as he left a meeting with Wall Street analysts on Dec. 10. Asked where he thought the bidding for Paramount Communications, which started at \$69 per share, would end, Redstone parried: "Where do you think it's going to end? \$100 a share? \$120 a share?"

Where indeed? The chairman of Viacom Inc. is mum about his intentions. If he wants to defeat a rival bid from QVC Network Inc., Redstone may

have to ante up an additional \$1 billion or so. On Dec. 14, Paramount's board of directors issued guidelines for an auction that turns the takeover into a mad dash to the finish line.

For most of the negotiations, the deal couldn't have been won so soon enough.

After nearly 100 rounds of bids, counterbids, accusations, lawsuits, the takeover battle earned a sobriety rarely on Wall Street: The deal from hell. Virtually everyone involved—

Sumner Redstone and Paramount Chairman Martin S. Davis

and their lawyers and bankers—has been rattled (table). Even the image-buffers at Lazard Frères & Co., the public-relations specialists who have gotten a black eye.

T REBUKE. Among those most damaged by the fight are Paramount's 11 independent directors. In a Nov. 24 decision, the Delaware court knocked the board as a group who let Davis spurn QVC's bid even though it was higher than Viacom's best offer. Now, with an auction that adheres to the court ruling, the board hopes to make amends.

Paramount has asked Viacom and QVC to submit their best bids by Dec. 20, after which the board will assess both and make a recommendation. But after a long and contentious board meeting, the

directors voted to allow shareholders to tender their shares to either offer, so long as the bidders stay within the guidelines. As a result, the directors and Chairman Davis have surrendered much of their control over the process. "This really is a defeat for Marty Davis," says John Coffee, a corporate-law professor at Columbia University.

But QVC Chairman Barry Diller doesn't see it that way. In a Dec. 15 letter to Lazard Frères & Co., which is running the auction, Diller's lawyers harshly criticized Paramount's guide-

gaming company of which Redstone owns 24.9%, said it bought 500,000 shares of Viacom in September and October. Viacom says it knew nothing of the purchases. But the Illinois Gaming Board is taking the Redstone connection seriously enough to make it part of a review of WMS's application to supply gambling equipment to Illinois riverboats. WMS declined comment.

As part of its ongoing lawsuit against Paramount and Viacom, QVC wants to depose Redstone and WMS executives to determine whether their purchases boosted Viacom's stock at critical points during the takeover. Paramount's board is also seeking similar data.

"DISGUSTED." In the miasma of embarrassing conduct, some say Redstone's actions may be the most dubious. "Sumner's stock-buying behavior has disgusted people," says one prominent banker outside the deal.

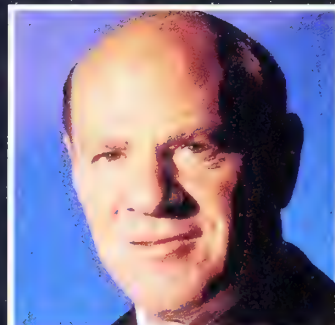
Sounds like Redstone could use some



MIGHT DAVIS TIP OFF VIACOM?



CAN REDSTONE FIND A BILLION?



CAN DILLER CHANGE THE RULES?

THE PARAMOUNT DEBACLE: WHO LOOKS BAD

PARAMOUNT DIRECTORS

Delaware court says board was overly passive in allowing CEO Martin Davis to dismiss a QVC bid

PARAMOUNT ADVISERS

Court says Lazard Frères didn't adequately assess QVC's offer; Simpson, Thacher & Bartlett opposed talks

SUMNER REDSTONE

He and WMS Industries traded in Viacom stock at critical times before and during the takeover battle

KEKST & CO.

Public-relations firm represented both Paramount and Viacom, even after the interests of the companies diverged

lines. One QVC adviser says the board could still tilt the process in Viacom's favor. Coffee and others have qualms, too. With only one round of sealed bidding, Paramount is inviting suspicion that it might tip off Redstone to Diller's hand. And some experts argue that the board should have hired its own advisers to weigh the offers. As it stands now, Lazard, a Paramount adviser criticized by the court for slighting QVC's earlier offers, is in charge.

Separately, Diller is scrambling to capitalize on another of the takeover's messy sidelights: The trading of Redstone and one of his investment vehicles, WMS Industries Inc., in Viacom stock. Redstone made heavy purchases in the months before the deal, while WMS, a

good PR. But he can't ask Kekst, the firm that until recently represented both Viacom and Paramount. Rival PR firms questioned Kekst's dual role from the start. And President Gershon Kekst says his firm stopped working for Viacom on Dec. 14, after his clients' interests diverged. Yet Kekst was still helping Paramount to publicize the auction even as it fronted for Viacom on its reaction to the news.

"There are a lot of competitors who would like to throw stones at me," says Kekst. "I guess I have to have a thick skin about it." When you're working on the deal from hell, it helps to have the hide of an armadillo.

By Mark Landler in New York, with Richard A. Melcher in Chicago

LARRY, WE HARDLY KNEW YE

As Polaroid's key recruit leaves after a week, the future looks fuzzy

A year ago, Polaroid Corp. very publicly recognized there was more than instant photography to its future. CEO I. MacAllister Booth reorganized the company, carving out an electronic-imaging division to focus on emerging markets for advanced computer scanners and snazzy digital cameras. There was one piece of the puzzle missing: an experienced electronics executive to run the business. The company launched a massive search to find one.

Polaroid is still searching. The Cambridge (Mass.) company thought it had the job filled in early October with a top software executive Booth had courted for months. But the recruit, Larry Gerhardt, CEO of Test Systems Strategies Inc., quietly left Polaroid after less than a week. Gerhardt says he was "allowed to back out" for personal reasons. A company spokesman, responding to written queries from *BUSINESS WEEK*, says Gerhardt "never really started to work here."

HELIOS STALLED. The embarrassing departure leaves Polaroid's nascent electronics division without leadership at a crucial time. More important, it raises questions about whether the company is ready to enter the electronic age. Polaroid acknowledges that photographic profits can sustain the company for only a few more years. But Booth also has pledged to lift pretax operating profits to at least 12% of sales, from an estimated 8% this year. Moreover, the company's first major foray into electronics, a \$200 million investment in Helios, an innovative dry-process imaging system, has fallen short of expectations. That project, say several former Polaroid employees, has limited research and development funding available for other electronics ventures.

Conrad H. Biber, who in April retired as head of electronic-imaging research, says Helios "has taken more effort and funding than anticipated. Therefore, the other electronic-imaging thrust has been falling behind." Indeed, Biber and others say, the lack of financing was a critical reason behind Gerhardt's departure. Gerhardt de-



DATA: COMPANY REPORTS, MORGAN STANLEY & CO.

nies that, but analysts say Polaroid will have to scrimp to meet its ambitious financial goals. As a result, "there's still a question long-term whether they can crank up these new businesses to cover the decline in instant-photography products," says Peter J. Enderlin of Smith Barney Shearson.

Short term, things look better. Polaroid's new Captiva, a compact, point-and-shoot instant camera introduced in U.S. stores in September, is a snappy

success. "It's one of the hottest-sell photographic items of the Christmas season," says David Ritz, president of Camera Centers Inc., a Beltsville (Md.) chain with 500 stores nationwide.

Analyst Brenda Lee Landry of Morgan Stanley & Co. says Captiva should end a six-year slide in camera sales, pushing unit volume up 400,000 a year, to 4.4 million. The resulting revenues are a big reason Polaroid earnings are expected to jump 40%, to \$100 million from just \$30 million a year in the quarter ending Dec. 31. And it looks even better: Earnings could rise 30%, to \$140 million, for the year.

But Polaroid is struggling with a series of Helios missteps. Stalled for two years by engineering glitches, the system was finally shipped in March—just as hospitals were cutting back on equipment purchases. Helios should generate just \$10 million in sales a year—well below the \$25 million analysts originally expected. Meanwhile, Xerox Corp. disclosed plans to team with 3M and Bayer's Agfa to develop similar dry-process technology.

Polaroid says its Helios problems are mostly due to weak demand. "There can be no denying the negative impact of the current economic climate," says the company spokesman. But customer satisfaction is "extraordinarily high." And Booth has promised to bring Helios laser technology to the printing industry sometime next year.

As long as Helios falters, though, Booth will be pressured to generate the operating profits needed to fund new electronics investments. That could hurt his efforts to revamp Polaroid's staid, cautious culture to compete in markets where product life cycles are measured in months rather than years. "Current management very much appreciates the need to accelerate the pace of change," says Carl J. Yankowski, a highly respected marketing executive who himself left Polaroid four weeks ago to become president of Sony Electronics Inc. Booth's promise seems to be keeping the people who might make that change happen.

By Gary McWilliams in Boston

Commentary/by Howard Gleckman

GROWTH MEANS INFLATION: CAN ANYTHING KILL THIS MYTH?

"I am not opposed to growth. I am opposed to inflation. They are not synonymous."

—Federal Reserve Vice-Chairman David W. Mullins Jr.

Coming from a Washington policymaker, that's heresy. For nearly 30 years, economic wisdom has held that solid growth always brings inflation. Like love and marriage, horse and carriage, and Beavis and Butt-head, you can't have one without the other.

Although a generation of economists and bond traders has accepted this orthodoxy, there is no evidence that it is true. Explosive growth may kick off inflation, and a prolonged slump can erode prices. But does a steady expansion inevitably mean a burst of higher wages and prices? Hardly.

The bond market, however, remains wedded to the notion that it does. And its inflation fears threaten to push up interest rates, choking off growth. Until the early 1970s, long-term interest rates averaged just two or three percentage points above inflation. But in the mid-'70s, bondholders were badly burned by explosive inflation. Rates soared, and by 1984, AAA corporate bonds were paying a staggering after-inflation yield of 8.4%. Real rates have been declining ever since, but even after three years of recession and sluggish economic growth, corporate rates are still above 4%, while 30-year Treasuries pay a 3.5% inflation premium.

"NO TRADE-OFF." Earlier this fall, it seemed that inflation fears were finally being wrung out of the markets. But in recent months, the economy suddenly started looking strong. And the bond market headed south, even though the consumer price index is increasing at a modest 2.7% annual rate.

No matter that oil prices are below \$15 a barrel and dropping, that wages are flat, and that many manufacturers still can't make price hikes stick. No matter that Europe and Japan are mired in slumps. The U.S. economy is

expanding, and bond traders "are always going to assume that growth means more inflation," says Donald Ratajczak, an economist at Georgia State University.

Yet even those forecasters who expect hefty price increases in the next year think inflation fears may be overblown. Conference Board economist Gail D. Fosler figures inflation will ac-

claimed any hard-and-fast relationship. And he never did a rigorous statistical analysis to prove his point.

But Phillips' idea somehow evolved into the economic equivalent of stock tablets. To this day, as soon as the economy begins a healthy expansion, hands start wringing in fear of the dreaded "Phillips curve," which is supposed to show the link to wage hikes.

There isn't much good evidence that steady growth ever really caused inflation. But more important, it may be that fundamental changes in the economy, including productivity gains and expanding global markets, are making the connection more tenuous than ever.

VIGILANCE. The stagflation of the 1970s showed that it was all too possible to have prices rising at a punishing 10% a year in a sick economy. Then, in the mid-1980s, the U.S. enjoyed moderating wages and prices even as the economy grew at a healthy 3.5% pace. After that, you might think the people would have second thoughts about the connection. Not so.

What will it take to finally wring inflationphobia out of the markets? To start with, the Fed will have to show that it is still vigilant, probably with a bit of monetary tightening early in the coming year. Federal policymakers will have to continue reducing the budget deficit (page 3). And the markets will probably have to see a sustained period of steady, productivity-driven economic growth without runaway inflation before bond traders become believers. Maybe then they will come to understand that, with apologies to songwriter Sammy Cahn, you can have one without the other.

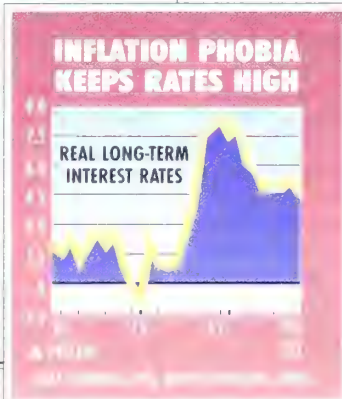
Gleckman writes on economic trends for BUSINESS WEEK in Washington.



celerate by more than a percentage point, to 3.9%, by this time next year. But she thinks that will be merely a return to normal levels after two years of disinflation: "There just is not the strength in the world economy to begin an inflationary cycle."

And even Federal Reserve Governor Wayne D. Angell, an inflation hawk, dismisses fears that growth must lead to spiraling wages and prices. "Over the long term, there's no trade-off," he says.

Until the late 1950s, few believed in such a linkage. But in 1958, an obscure New Zealand economist named Alban William Hoeseg Phillips speculated that growth would produce higher wages. Phillips, an unassuming sort, never



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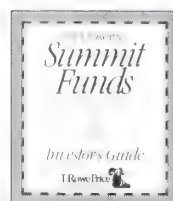
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ROCKS ON THE BLOCK

Move over, Old Masters. The auction houses reset the jewelry market

Important weddings are scheduled to take place soon in Saudi Arabia. The elite set of Hong Kong, Taiwan, Singapore, and the rest of Southeast Asia is suddenly getting richer—and bigger. China's rags-to-riches capitalists are diversifying their assets. The Sultan of Brunei, the wealthiest person in the world, is involved, of course. It's the holiday season in the West, and wealthy Americans and Europeans are feeling flush.

Add together all these goings-on among the monied classes, and it makes for a huge surge in demand for important, big-ticket gems and jewelry—the stunners that cost hundreds of thousands, even millions of dollars. "People are throwing around money like it's pocket change," says New York diamond dealer Saul Goldberg.

Surprisingly, a lot of that cash is landing at Sotheby's and Christie's, best known as art auctioneers. During 1993, the two companies sold a record \$365.3 million worth of gems and jewelry—up 40% (chart). Jewelry far surpassed the auctioneers' sales of Old Masters, contemporary art, and every other line of business except Impressionist and Modern paintings.

CERTAIN MYSTIQUE. High-end jewelry auctions have been strong virtually everywhere, but especially in Geneva. During one mid-November week, buyers—largely Arabs and Asians—competed mightily for the lots on offer there. A 100.36-carat flawless diamond fetched \$11.88 million at Sotheby's, and the 78.54-carat "Archduke Joseph" diamond ring brought \$6.46 million at Christie's. "In the world of gems, there's no hotter place to be than Geneva for the late fall," says Henry Barguirdjian, president of Van Cleef & Arpels Inc., the U.S. branch of the Parisian jeweler. He credits the auctioneers with creating a mystique about buying jewels at auction.

These spectacular auction successes are rearranging the top-of-the-line jewelry business. More private buyers are heading directly to the auction rooms to buy baubles, not to Harry Winston Inc., Tiffany & Co., or other posh jewelers. "Of course, this impacts our business," says Barguirdjian, who was hired last summer to beef up Van Cleef's marketing efforts. Jewelers are getting hit

says Louis Glick, a 50-year veteran of the diamond business.

Neither auctioneer will say just how much jewelry is coming directly from the trade, but they confirm that it's a lot. The cutters and manufacturers have warmed to the idea because they're getting paid faster. In the past, retail jewelers usually bought gems outright, but the recessionary climate forced many of them to procure stones on consignment. As a result, the dealer or manufacturer didn't get paid in full until the piece was sold. And that can take even longer than the three to four months dealers usually wait between agreeing to put a stone up at auction and getting paid within 30 days of the sale. The only real risk: If a piece doesn't sell, even one knows.

SERVICE, TOO. The auctioneers need to boost what they're getting from jewelry:

though art sales are starting to rebound again after three years of decline, jewelry prices will be a while before painting prices return to their 1989 peaks (page 132). And the clients are proving susceptible to cross-marketing. "We want collectors to buy jewelry at auction, even if they don't traditionally think of us that," says Diana Brooks, chief executive of Sotheby's worldwide auction business. In the future, there might be a reverse flow. "Asian wealth will go into jewelry before it goes into Western art," declares John D. Blum. Sotheby's jewelry experts wonder the auction houses are leaving few stones unturned to develop the jewelry business. To broaden the market, they're taking jewels on around-world tours and throwing parties for prospective clients. They're building sales around famous design houses, such as Cartier and Bulgari, and inaugurating sales in new locations. Christie's, for example, held a small sale in Taiwan in October. And Sotheby's is stressing services: It now cleans jewels, restrings pearls, and makes storage boxes for pieces. All these efforts parallel what the auctioneers did over the past decade to lure art collectors into the auction rooms.

Obviously, it's working again. The question now is, how long will it last? By Judith H. Dobrzynski, with E. T. Smith, in New York



THIS CULTURED PEARL NECKLACE SOLD AT SOTHEBY'S FOR \$1,212,500 ON OCT. 20

by the new competition just as sales are rebounding after several tough years.

At the other end of the chain, gemcutters and manufacturers are bypassing the retailers, too, putting their biggest and best pieces directly on the auction block. The practice, while not unheard of in the past, is much more common now. "The advantage you have is that the auctioneers cover the entire world, and your diamond gets greater exposure,"

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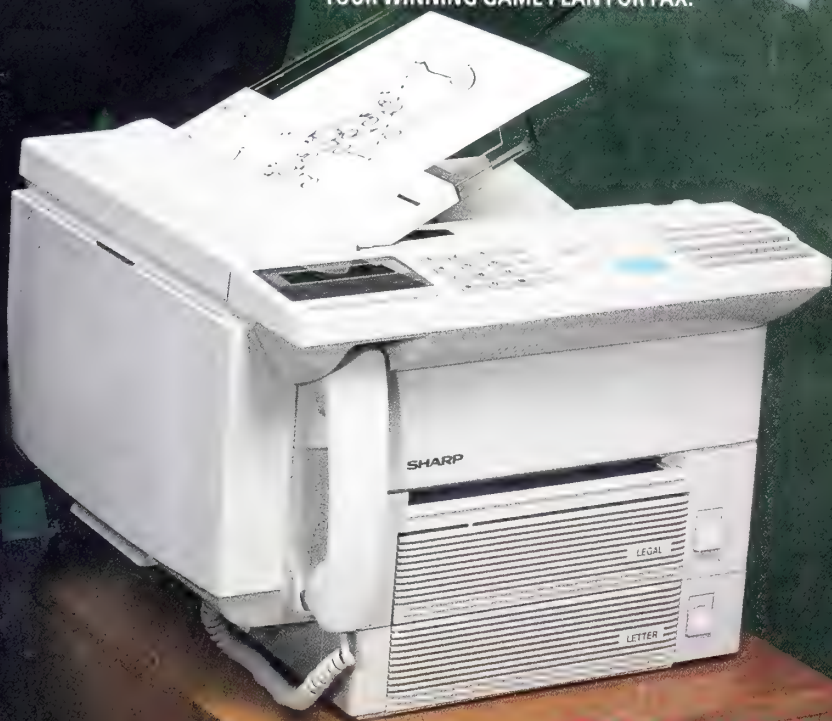
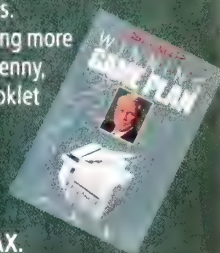
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MITSUBISHI BANK'S \$360 MILLION LOAN ON THE HYATT WAIKOLOA SOLD FOR \$52 MILLION

A SUSHI SPECIAL FOR BOTTOM-FISHERS

Japan's banks are selling a chunk of their vast U.S. real estate loans

It looked a lot like any one of the dozens of real estate deals that Southern California developers Sheldon M. Gordon and Randy Brant see every month. But there was something special about the transaction that bankers at Morgan Stanley & Co. brought them last summer. Eager to rid itself of a defaulted \$94 million loan on the 640,000-square-foot Scottsdale Galleria outside Phoenix, Morgan's client was willing to take less than \$20 million in cash for the shopping center that had cost \$130 million to build. "An incredibly good deal," Brant boasts.

As impressive as the price was the name of the seller: Mitsubishi Bank Ltd. Like most Japanese banks, Mitsubishi hasn't engaged in the real estate sell-offs with which U.S. banks have purged their balance sheets for the past two years. No more: Advisers to Japanese banks say their clients are accelerating efforts to unload big chunks of the more than \$50 billion in U.S. real estate loans they now hold (chart). In fact, their total exposure to U.S. real estate, including loans made by parent companies in Japan, comes to about \$200 billion.

MULTIPLE SALES. Japanese banks have some real losers on their hands. Jack R. Rodman, managing partner at accounting firm Kenneth Leventhal & Co., estimates that the value of hotels and office buildings—which back the bulk of Japa-

nese real estate loans in the U.S.—has fallen by as much as 40% since 1985. Sales by Japanese banks of such troubled assets, he says, could reach \$20 billion over three years.

Even the biggest Tokyo banks are feeling pressure to clean up their U.S. acts. The Japanese government is urging lenders to get rid of problem real estate assets so they can make new loans to help revive the moribund domestic economy. "The soundness of the Japanese financial system is in question," says Hideki Mitani, director of First Boston Corp.'s Japanese financial-institutions group. New Federal Reserve rules, moreover, require foreign banks with U.S. offices to quickly write down nonperforming loans.

The pace of activity already has picked up. Real estate investment banking firm Sonnenblick-Goldman Co. is currently peddling office buildings in Boston and Rochester, N.Y., for Sanwa Bank Ltd. In November, Colony Capital Inc. and Hilton Hotels Corp. paid Mitsubishi Bank an estimated \$52 million for its \$360 million loan on the ultra-luxuri-

ous Hyatt Regency Waikoloa resort. Two months earlier, a partnership including Morgan Stanley Real Estate Investment Fund bought the Doral Telleride Resort & Spa from Sumitomo Trust & Banking Co. for \$27 million. Japanese banks "are a lot further along in addressing this than people think," says Robert E. Upton, vice-president for real estate at Sakura Bank Ltd.

Investment bankers also are structuring deals to sell off multiple assets at once. Last June, Union Bank, a U.S. subsidiary of Bank of Tokyo Ltd., sold more than \$100 million in real estate loans and properties to a private investment group. And Stephen A. Roth, president of Los Angeles-based Secured Capital Corp., says his firm has assignment to sell \$200 million worth of single- and multiple-asset real estate portfolios.

DEEP STUDY. A wholesale sell-off is unlikely. Unlike their American peers, who have largely dumped their problem loans, many Japanese bankers still see long-term potential in the U.S. market. Some are exploring partnerships with U.S. investors that would allow them to get bad loans off the books while maintaining an interest in the assets. In Los Angeles-based Solus Properties, for example, is negotiating to buy about \$80 million of loans and foreclosed real estate from a Japanese bank, according to real estate sources. The bank would get a portion of future returns on the properties above a negotiated floor.

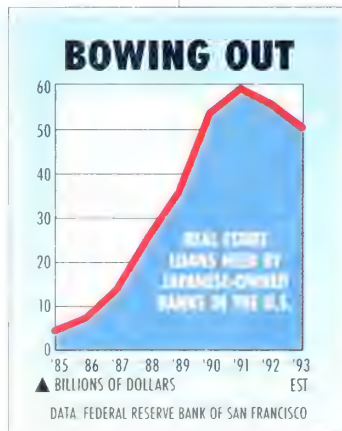
Banks may be backing out of the U.S. cautiously. Back in Tokyo, though, regulators are pushing for a U.S.-style market for real estate debt. The demand for expertise gives Japanese banks extra incentive to attempt more U.S. deals. Indeed, First Boston's Mitani says he

talked with several Japanese clients about securitizing thinly profitable American loans. "Eventually," he says, "they can use the techniques in Japan to give liquidity to the Japanese market."

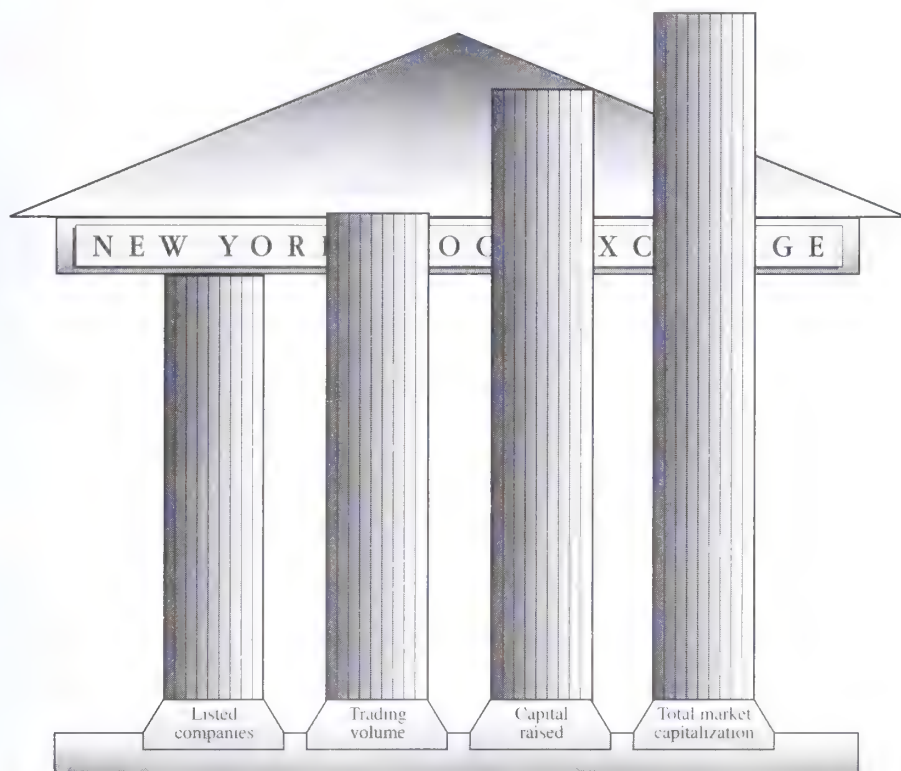
Japan may get more than Yankee ingenuity out of such activity: It may import Yankee buyers. Hitoshi Kama, a senior economist at Industrial Bank of Japan Ltd., says he

been getting visits from investment bankers looking to hook up U.S. investors with bank assets backed by Japanese real estate. Tokyo buildings owned by Americans: An inevitable turn, perhaps, to Japan's 1980s buying binge.

By Amy Barrett in Los Angeles, Suzanne Woolley in New York and Lauryl Holyoake in Tokyo



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HEROES AND HAS-BEENS

From the boardroom to the breakfast nook, there's a new feel to '94

A little guarded optimism, anyone? We're staring 1994 in the eye, and things aren't looking so bad. Ross Perot is silenced for now, and Madonna is finally passé—this time we promise. Hillary, meanwhile, is on a roll. The easy-living, back-to-basics thing seems to be holding fast. Sears is popular

once again. Ditto IBM. Even doughnuts. But these are the '90s, remember, and times are still lean. Tax increases are looming, making pizza a far better choice than a five-course state dinner. Even Princess Di finds herself on a budget. (Well. At least the Internet is still free.



MOTOWN'S IN MOTION



TAKE US TO YOUR THIRD GRADER



HAPPILY EVER NAFTA



WEB NUSH '94

WHAT'S IN

BUSINESS

Sears
The Internet
Detroit
Stock deals
Fidelity
IBM PCs
Outsider CEOs
Growth strategies
Portfolio careers
Teams
Hillary
Wal-Mart
Prodigy
Tokyo
Debt financing
Prudential Securities
PC clones
Heirs apparent
Cost reduction
Corporate lifers
Hierarchies
The AMA

SOCIAL TRENDS

Susan Powter
Timberlands
Ru Paul
Feel-good family flicks
Letterman
Burpee Seed catalog
Ice beer
Mighty Morphins
Rotisserie chicken
Mexican swing
Shaq
College football
Doughnuts
Hillary
Jenny Craig
Reeboks
Madonna
Schwarzenegger flicks
Leno, Chevy, Conan
Sharper Image catalog
Dry beer
Ninja Turtles
Chinese takeout
House music
Michael Jordan
The NFL
Croissants
Princess Di

POLITICS

Al Gore
Gun control
Republican candidates
White House pizza runs
Shared sacrifice
Workfare
Trade deals
Christine Todd Whitman
Newt Gingrich
Health reform
Hillary
Ross Perot
The NRA
Democratic machines
State dinners
Middle-income tax cut
Welfare
Trade talks
Ed Rollins
Bob Michel
Campaign-finance reform
Kim Campbell

WHAT'S OUT



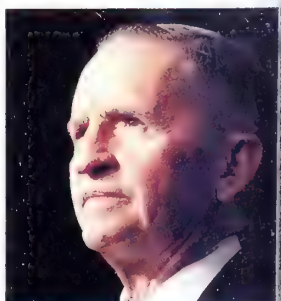
CLONES GET DOS BOOT



YEAR OF THE CLOGGED ARTER



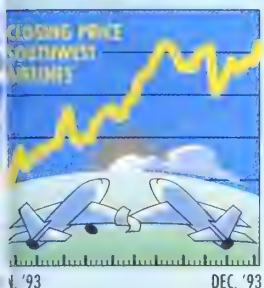
THAT'S SHOE BIZ



THE MOUSE THAT BORED

ED BY KEITH H. HAMMONDS

LOSING BELL



A LOW-BUDGET AIRLINE AFFAIR

h sides called it a match de in heaven—and investors eed. Southwest Airlines said Dec. 13 that it will buy rris Air for stock worth about 9 million. A small deal, true, significant nonetheless: thwest shares jumped \$2, to , on the news. Privately held rris, with some \$220 million venue, shares Southwest's cost, low-fare philosophy. two don't compete on any es. With the deal, Southwest a chance to speed up with and, perhaps, preempt or carriers seeking to create own low-fare, short-haul rations.

DATA: BRIDGE INFORMATION SYSTEMS INC

FISHER'S WAY KODAK

fter two weeks on the job, Eastman Kodak CEO ge Fisher is making it he won't manage his any just to please Wall t. On Dec. 15, Fisher ly announced that Ko- 1994 earnings likely will well below analysts' ex- tions and barely exceed s. And he warned that cutting would proceed at asured pace, a shock to Street, which had been ting on massive layoffs other economy measures opel earnings. Analysts ed to cut their 1994 fore- s from about \$3.50 a to \$2.80. Kodak stock 7¼ on the news, to 55½.

AN IBM DIVISION GOES TO LORAL

Louis Gerstner has found his first big victim at IBM: the 11,400-employee Federal Systems Div., which IBM announced on Dec. 13 will be sold to Loral for \$1.575 billion in cash. The unit is relatively profitable: 1993 operating earnings total \$153 million. But IBM says building complex systems for the government doesn't fit its long-term plans. The decision came after a summer-long review to find operations that could be unloaded. But don't look for more \$1.5 billion deals, warns CFO Jerome York: The other businesses on IBM's for-sale list together would bring in only \$500 million.

GENES AND DISEASE: A MAJOR FIND

French researchers have reached a major milestone on the map of the human genome. A team led by Dr. Daniel Cohen of nonprofit institute CEPH announced on Dec. 15 that it had determined reference points for 90% of the human genetic structure. Using Cohen's physical map, researchers will be able to cut years off the search for specific genes causing hereditary diseases such as diabetes and certain cancers. Results of the

HEADLINER

AN AUTUMN TO REMEMBER

Last August, just as Jeffrey Barbakow was settling in as CEO at scandal-ridden National Medical Enterprises, 600 FBI agents raided NME's headquarters in Santa Monica, Calif., and other facilities. The feds were searching for evidence of overbilling, a charge 19 insurers had already made in two lawsuits.

Barbakow seems to be getting a grip. On Dec. 13, NME agreed to reimburse 13 insurance companies \$89.9 million, part of a total \$230 million in settlements. Ten days earlier, the company had announced the sale of its deteriorating rehabilitation-care unit for \$300 million. Barbakow's maneuvering has



propelled NME's stock to 13, double its price four months ago.

Barbakow, a former Merrill Lynch investment banker, vows he will next sell off the company's chain of 61 psychiatric hospitals. Then he plans to cobble together a deal with the Justice Dept., hoping to head off potential indictments. Analysts speculate that Barbakow's ultimate goal is selling off the entire company. A full agenda? When he started, Barbakow says, "I had a list in my top drawer of sixteen things I needed to get done. Now, the list is down to two."

By Eric Schine

10-year, \$45 million project will be shared with other scientists free of charge.

RENO GETS TOUGH WITH SHAWMUT

Attorney General Janet Reno, who has called lending discrimination "one of the most important civil rights issues facing this country," has bagged her first

quarry. On Dec. 13, the Justice Dept. announced that Shawmut Mortgage had agreed to settle charges that it illegally denied mortgages to qualified minority applicants. While Shawmut neither admitted nor denied the charges, the Boston company agreed to pay at least \$960,000 to blacks and Hispanics who were denied loans between 1990 and 1992. Government sources indicate that Justice is pursuing similar investigations against roughly half-a-dozen other banks.

ETC. . . .

- Borden CEO Anthony D'Amato resigned amid pressure from disappointed investors.
- Henry Burkhardt resigned under pressure from Kendall Square Research.
- Former S&L operator Charles Knapp was sentenced to 6½ years in prison.
- And Paul Mozer, ex-Salomon Brothers trader, got four months and a \$30,000 fine.

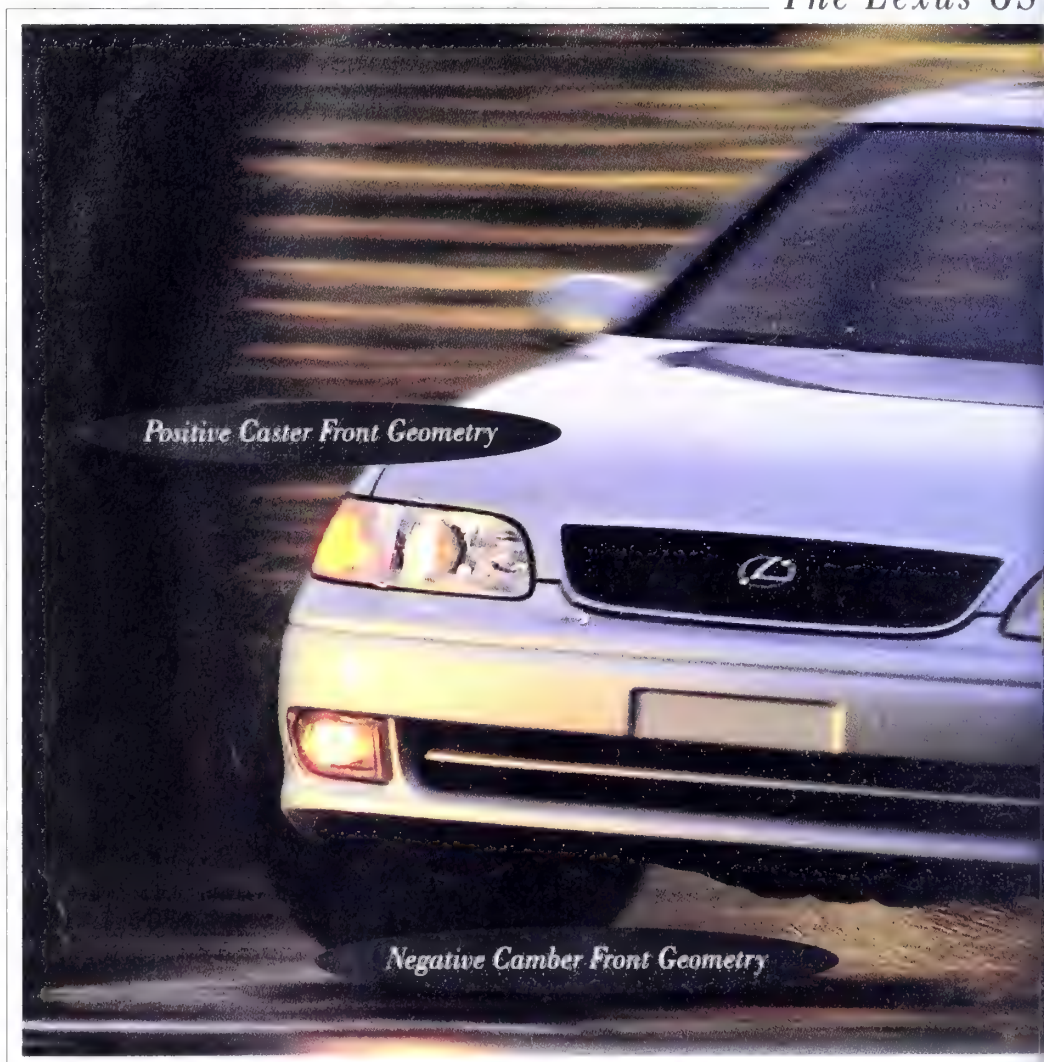
PHOTO FINISH



SIDEWALK SANTAS: CORPORATE CHARITY GIVING IS DOWN. BUT WITH PERSONAL INCOMES RISING, INDIVIDUALS ARE DONATING MORE

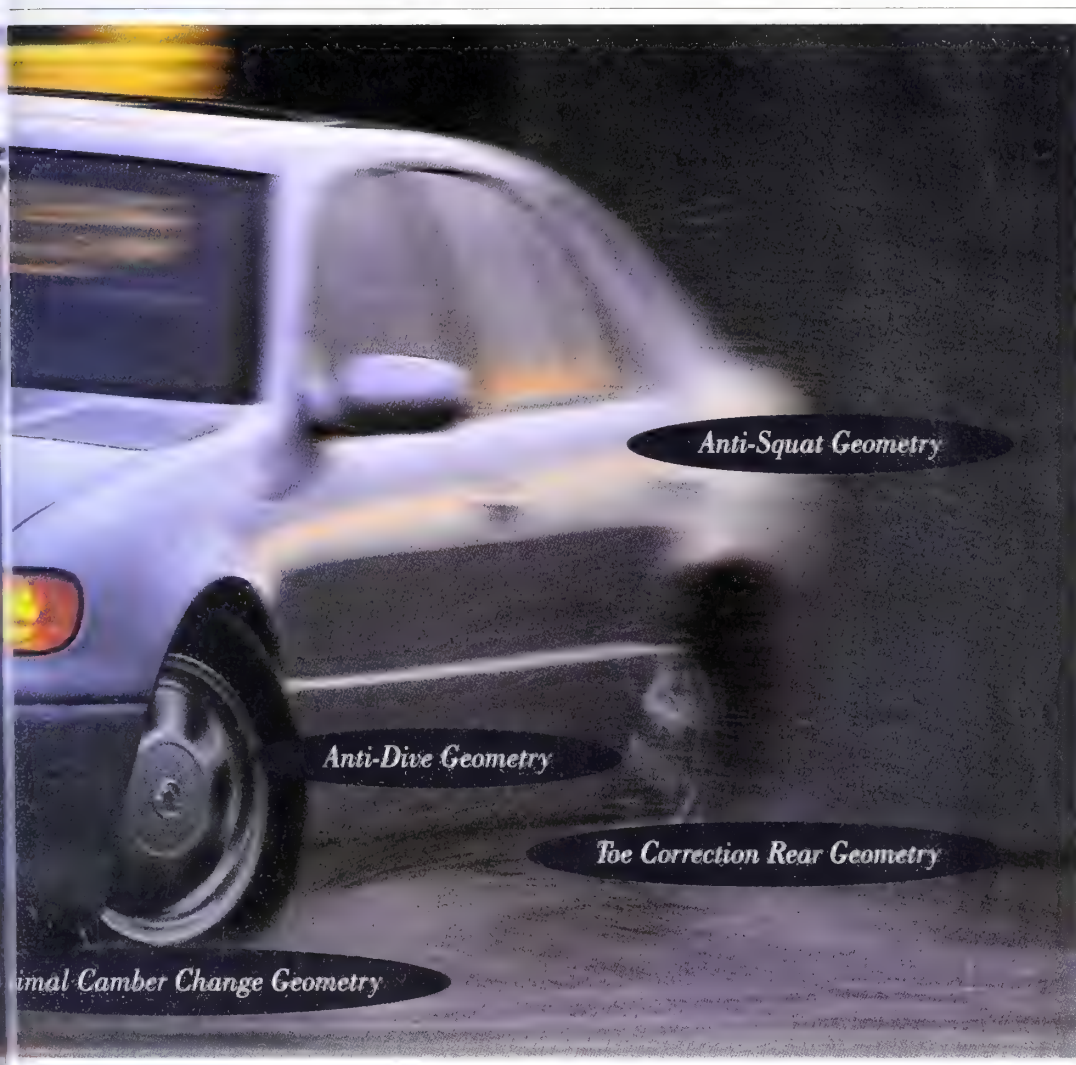
CLOCKWISE FROM TOP LEFT: CHART BY ALAN BASCONE; PHOTOGRAPHS BY DAVID STRICH; GARY COLE FOR NISSEN MATHE

The Lexus GS



And You Thought Your Geometry After

Chances are, you haven't
a practical use for calculat
the angles of an isosceles tri



Never Need High School.

s not lost. One ride in the
S will quickly restore your
the virtues of geometry.

Still further adjustments were
made to help reduce front-end
dive during braking as well as

The suspension of
the Lexus GS has
been designed to
provide a firmer
feel without sac-
rificing comfort.

body roll during cornering. The
end result is truly a driver's car.

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geometry can be. Take the GS out
for a rigorous test drive. We only ask
that you keep it parallel to the road.



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THE BUDGET: CLINTON IS A TIGER —BUT HE WON'T ATTACK ENTITLEMENTS

Cutting spending on federal benefits programs isn't very high on Bill Clinton's agenda. That much was clear to anyone who watched Professor Clinton and his teaching assistants defend program after program at a Dec. 13 Bryn Mawr (Pa.) conference on the Future of Entitlements.

That attitude doubtless was a disappointment to the conference's organizer, Representative Marjorie Margolies-Mezvinsky (D-Pa.), who got Clinton to promise to attend the meeting in exchange for casting the deciding vote in support of the President's budget in August.

But Clinton's reluctance to tackle big new entitlement cuts should not be read as backsliding on budget restraint. In fact, the Administration has its hands full keeping the budget in line with the freeze on discretionary spending enacted this summer.

As soon as Clinton returned to Washington, he was besieged by agency heads who have been told that they must cut \$20 billion from fiscal 1995 spending requests to meet the budget total of \$541 billion. The Pentagon alone must slice \$5 billion. And Housing & Urban Development Secretary Henry G. Cisneros submitted a five-year budget that raised spending by \$20 billion over the caps. The Secretary needed the money to deliver on a promise to end homelessness.

COAL IN THEIR STOCKINGS. But even the most poignant pleas will likely be turned down. "There are a lot of people, including Cabinet members themselves, who did not understand the implications of a hard freeze for the next five years," says Office of Management & Budget Director Leon E. Panetta. Under the budget deal, discretionary spending in 1998 will be \$548 billion, down from \$550 billion last year. The heaviest burden will fall on the Pentagon, but domestic departments will also be squeezed hard. Failure to understand the extent of the crunch caused agencies to burst through the ceilings. To make matters worse, Panetta has to find an addition-

al \$10 billion in cuts because of lower-than-expected inflation and higher federal pay approved by Clinton.

The result will be coal in a lot of Christmas stocking members, Clinton will start slashing away. Once he reached the cap, the President will cut some more to provide increased spending for "investments": These favored programs include Head Start, child feeding, job training, high-tech research, education, and crime-fighting. But Congress

certainly try to increase funding for its favorites, setting up another showdown among Democrats.

There will be turmoil over entitlements too. The big adjustment will be proposed for Medicare and Medicaid, which together account for nearly one-third of mandatory federal spending. They'll be altered chiefly by the President's health-care-reform proposal, which the 1995 budget assumes will be in place a year from now. On the other side of the ledger, welfare reform, which is high on the priority list of Senate Finance Committee Chairman Daniel Patrick Moynihan (D-N.Y.), will require higher spending in the short run.

And to complicate matters further, implementation of a new global trade agreement will cost money. The international pact to reduce tariffs would trim government receipts by \$9 billion over five years—a loss that, under current rules, must be offset by a tax increase or spending cuts.

The White House had hoped the budget struggle, which won with the reluctant help of Representative Margolies-Mezvinsky and other moderate Democrats, would spare further unpleasantness over spending for a year or two. But with Congress, and even Cabinet secretaries, just now learning what the fine print means, the prospect of fiscal peace looks as dim as ever.

By Paul Magnusson, with Susan B. Garbarino



PANETTA: HUNTING FOR MORE CUTS

CAPITAL WRAPUP

CIVIL RIGHTS

President Clinton's yearlong delay in naming a chief for the Justice Dept.'s Civil Rights Div. is causing turmoil and frustration in the key enforcement unit. Lawyers say a large number of Reagan-Bush holdovers are still in place and a lack of leadership has stalled initiatives. For example, staff attorneys want to file civil-rights suits in the case of several suicides-by-hanging in Mississippi jails. But the effort has been put on ice pending approval by a new civil-rights chief. Meanwhile, many fed-up activist attorneys have quit. The President is expected to name John Payton, top lawyer for the

District of Columbia government, to the job. But his nomination is stuck: The Congressional Black Caucus wants a more experienced candidate.

CONVENTIONS

Although the formal site-selection process hasn't even begun, Republicans and Democrats are fast narrowing the field for their 1996 nominating confabs. The GOP is leaning strongly toward a mid-August gathering in San Diego, runner-up to Houston in 1992. And the Democrats are all but certain to pick Chicago, which is the hometown of Chairman David Wilhelm and is well supplied with hotel rooms and other facilities.

ISSUES

A shift in public sentiment about which issues are most important could spell trouble for Democrats next year. A new poll by Democratic poster Celinda Lake and Republican pollster Edward Goeas found that 66% of voters cite crime and personal security as their biggest concern. Only 30% rank issues such as jobs and the economy first. That's a stunning turnaround just since August, when pocketbook issues topped voter concerns. Historically, voters prefer Republicans to deal with crime. Health care, Clinton's top priority, ranks third with voters, with about 30% calling it most important.

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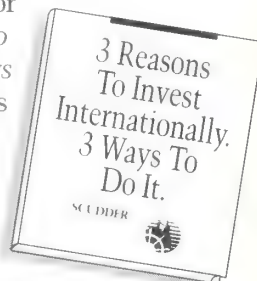


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*Source: 10-year average annual returns as tracked by unmanaged Morgan Stanley Capital International indices. **Source: Investment Company Institute. †International investing involves special risks, including currency-exchange fluctuation. Brochure is accompanied by a prospectus for Scudder International Fund, with more complete information on management fees and expenses. Read the prospectus carefully before you invest or send money. Scudder Investor Services, Inc., Distributor.

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YOU CAN'T HAVE TOO MUCH OF IT."**

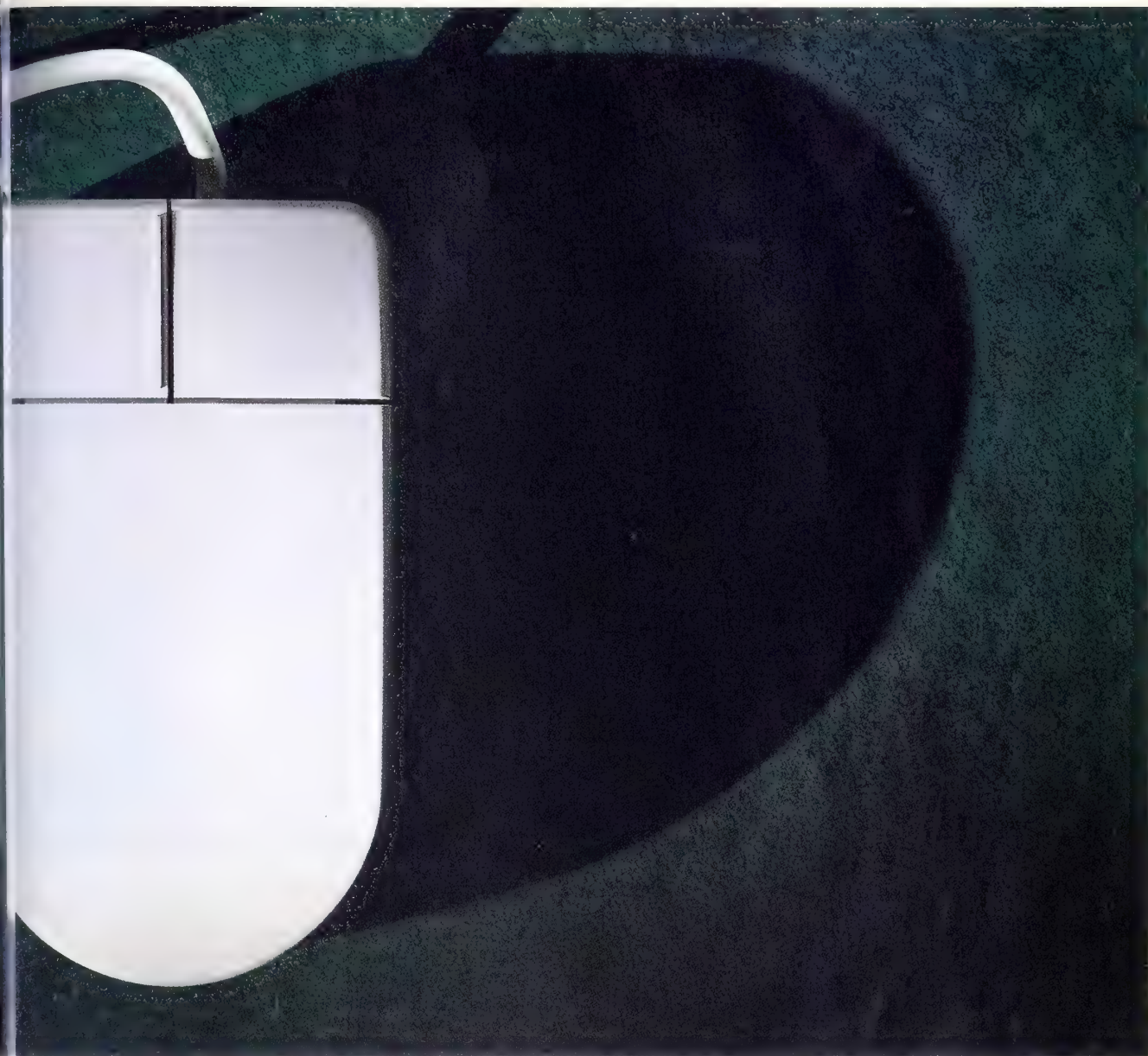
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'THE REFORMS HAVE LOST'

A RABID NATIONALIST SPOILS YELTSIN'S DAY

Russians have long been unhappy with the rampant inflation and increased crime that have accompanied the dismantling of the Soviet Union. But few outsiders understood just how disillusioned they were until the results started coming in from the Dec. 12 parliamentary elections. Voters seem to have approved Boris N. Yeltsin's new constitution, but they also blasted his reform program by giving Vladimir V. Zhirinovsky's scary, ultranationalist Liberal Democratic party more votes than any of the other 12 parties running. "The reforms have lost," says economic adviser Anders Aslund, summing up the gloom in Yeltsin's camp. "This is a big loss."

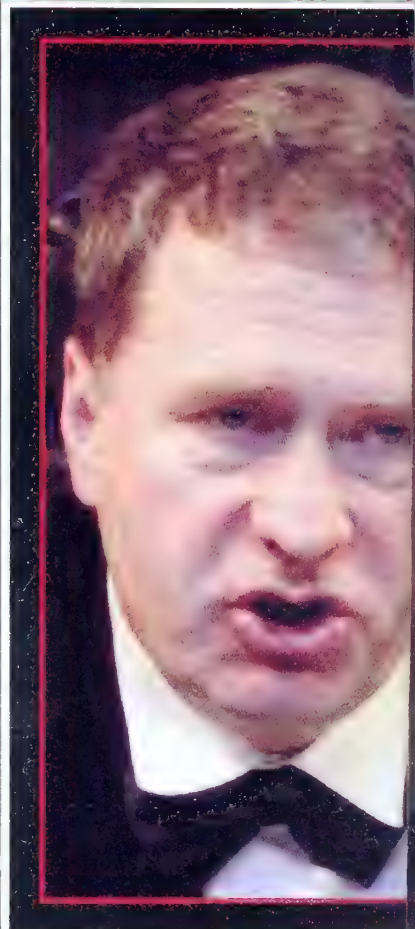
Indeed, Zhirinovsky's triumph, combined with strong showings by the Communists and the arch-conservative Agrarian Reform Party, represent a popular repudiation of the shock therapy that Yeltsin and his economic henchman, Deputy Premier Yegor T. Gaidar, have been pushing for two years. As they demonstrated with their votes, Russians blame the reform program for the 20%-per-month inflation that has eaten away their savings and made many of their salaries a joke. They also associate Yeltsin's liberalization with rampant lawlessness and profiteering.

Even though Zhirinovsky's potential legislative clout may be less than feared, there's no doubt that the new legislature spells trouble for reformers. Instead of producing a stream of progressive legislation, the body could end up being just as obstructionist as the one it replaced. Zhirinovsky is likely to push for tax laws that soak foreign companies, deny them much say in investments, and severely limit their access to natural resources. He's also likely

to team up with the Communists to push for inflationary subsidies for defense industries. Moreover, he'll have an impressive new platform from which to embarrass Russia's reformers.

The rightists' victory was also a shock to leaders in the West and in neighboring countries, such as Poland and the former Soviet republics. During his campaign, Zhirinovsky called for an aggressive expansionist policy that would see Russia push out to the old Soviet borders. "If this develops into state policy, it could lead to a catastrophe," says Ukrainian President Leonid Kravchuk.

RACIST VIEWS. But it is still unknown whether Zhirinovsky can turn his impressive showing into a real power base. While his party appears likely to rack up about 25% of the vote, it may get fewer seats in the key Duma, or lower house, because of the complicated electoral system. Although the dynamics of Parliament will not be fully clear until next month, it looks as if Zhirinovsky's power will be mainly to criticize and obstruct reform legislation (table). Moreover, the new constitution gives Yeltsin vastly increased powers, making it easier for him to appoint ministers and other top officials over Parliament's objections and to



dissolve the legislature if he can't work with it. "The alarm over Zhirinovsky's prematurity," says Alexander Rahr, an analyst at Radio Liberty. "His strength has been overestimated."

The Clinton Administration seems to agree. Conceding that the strong rightist vote was undesirable, U.S. officials are still hopeful that the reformers can put together a coalition. There is also talk about speeding up aid to Russia in

providing more support for privatization and other showcase projects.

Still, despite such hopes, talk, Yeltsin's options on managing the economy are going to narrow. While movement toward a market economy is likely to proceed, it will probably gain a slower pace. In the future, Yeltsin and whomever he puts on his team will have to be much more careful about protecting living standards, jobs, and national sensitivities. That could mean Russia will be further delayed in meeting its credit and budget targets for an additional \$1.5 billion



MOSCOW SOUP KITCHEN: TAPPING ECONOMIC PAIN AND OLD HATREDS

SHOWDOWN TIME IN RUSSIA

HOW ZHIRINOVSKY COULD DERAIL REFORM...

- ▶ Use the new Parliament as a forum for a presidential campaign
- ▶ Push policies to antagonize Ukraine, Poland, and the Baltic States
- ▶ Use public fears of rising crime to suppress non-Russian ethnic groups
- ▶ Create more inflation through big government bailouts and subsidies
- ▶ Build legislative coalitions to pass laws blocking foreign trade and investment

...AND HOW YELTSIN COULD FIGHT BACK

- ▶ Form democratic coalitions in the Parliament to contain Zhirinovskiy
- ▶ Do more to advertise reform's successes, such as privatization
- ▶ Work harder to curb crime and inflation quickly
- ▶ Keep Russia engaged with the West
- ▶ Use the Constitution wisely to block Parliament when needed

DATA: BUSINESS WEEK



ans from the International Monetary Fund.

Moreover, Zhirinovskiy will now be to use Parliament as a choice forum his racist, reactionary views. Long dismissed as a clown, the 47-year-old er managed a skillful, well-financed aign. His slick television ads played ily on economic hardship, racial adice, and Russian nationalism. He ised to halt the conversion of Rus- vast military complex—an idea pop- with thousands of workers facing ffs. He railed against “foreigners” hing up the riches of downtrodden ia and hinted at purges of Jews. irinovskiy’s success has certainly mbled Russia’s political scene. Yelt- government may be in for a reshuf- ter the new Parliament meets on 11. That could mean an uncertain e for Gaidar, a top Cabinet member architect of Yeltsin’s shock-therapy ms. Gaidar’s party, Russia’s Choice, in a surprisingly poor electoral ing, coming in second, with only t 14% of the vote.

ny observers think the new govern- will still be headed by Prime Minis- tktor Chernomyrdin, who prefers a gradual approach toward reform. former chief of Gazprom, the state

gas monopoly, favors big roles for the massive state industries that employ millions of workers. One possibility could be their reorganization into Russian versions of Japanese *keiretsu* or South Korean *chaebol*. In early December, Yeltsin signed a decree calling for the organization of “financial-industrial groups” that would link big factories to new banks and other financial groups.

HOW FAST? Foreign executives in Moscow generally find Zhirinovskiy unsavory and have been jolted by the election results. The worst-case fear: a flood of xenophobic legislation from the Liberal Democrats or antimarket proposals from the Communists. But a more realistic worry is that a split Parliament won’t pass the legislation needed to improve the business climate. That would hamstring efforts to address such critical matters as taxation, tariffs, and access to oil and gas. The business community is relying on Yeltsin’s strong constitutional powers to beat back legislative excesses. “It’s not a good thing, what has happened,” says Pratap Nambiar, director of marketing and business-advisory services at Ernst & Young’s Moscow office. “But the presidential system guarantees that Yeltsin can move forward.”

How fast he will go is another ques-

tion. The politically astute Yeltsin did little to back his reformers in the campaign. In recent weeks, Yeltsin has taken a more centrist and conservative stance—slapping limits on foreign banks and high tariffs on imports.

And what if the presidency falls into the wrong hands? The scariest thing about the election is that it has given Zhirinovskiy a great platform to run for President whenever elections are held. While Yeltsin is scheduled to stay in power until 1996, Zhirinovskiy wants Yeltsin to hold an election next June 12, as he promised and then backed away from. So battles over the election’s timing are inevitable. If Zhirinovskiy somehow gets in, he will have a powerful weapon in the constitution.

The lesson, then, is a grim warning for Yeltsin and some of his advisers, including Harvard Professor Jeffrey Sachs, who pushed the shock-therapy experiment on the Russian people. Hiking prices while wiping out life savings in such a complicated country as Russia plays into the hands of demagogues like Zhirinovskiy. Russia and the West have to find a path to reform that doesn’t put people’s backs to the wall.

By Peter Galuszka in Moscow, with Owen Ullmann in Washington

FROM KUNG FU PEDDLER TO MEDIA POWERHOUSE

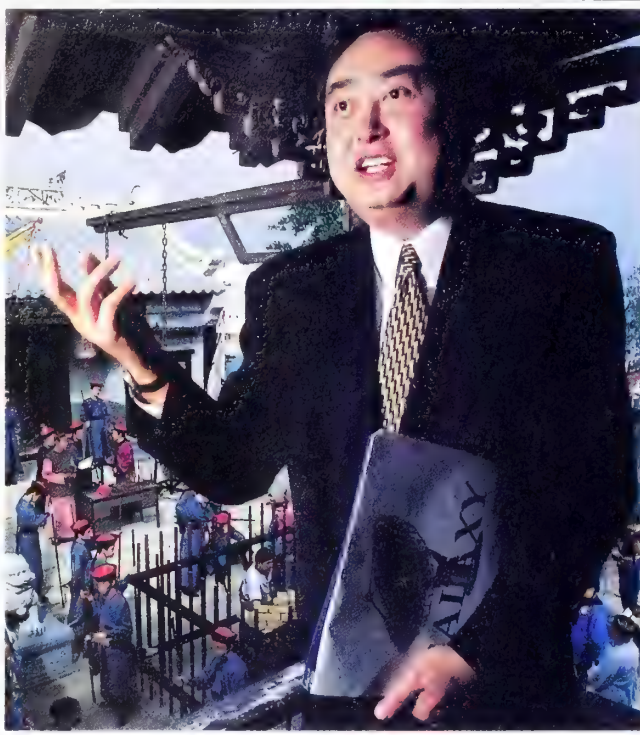
Hong Kong's TVB is a leader in the race to control rich Asian markets

Across China, people are tuning in to programs from Hong Kong's leading TV network, Television Broadcasts Ltd. (TVB). In the southern city of Shenzhen, 90% of viewers get TVB's Chinese soap operas. Along the Russian border, TVB's gangster movies are big hits. "It's a wonderful fit," says Fung Shing Kwong, general manager of TVB International Ltd., the company's overseas distribution arm, "between our product and the market."

Once a small-time purveyor of kung-fu movies and sappy soap operas, TVB is now a leading contender in the race to control the booming media markets of Asia. The company has revenues of \$270 million, 80% of viewership and advertising in the Hong Kong market, and ambitious expansion plans, including taking on Rupert Murdoch's Star TV. Through cable and satellite systems, it is forging a network of Chinese-language stations from Taipei to Toronto. The growth plans include negotiating a host of new partnerships with other major players, including Western media giants.

Behind the expansion are two tycoons who each own a third of TVB. One is Hong Kong movie mogul Sir Run Run Shaw, who controls the colony's leading film studio, Shaw Brothers (Hong Kong) Ltd. The other, Robert Kuok, runs the Shangri-La hotel chain. Both are using their extensive *guanxi*, or connections, throughout the region to make TVB an Asian power.

BARTERING. TVB is well positioned to satisfy Asia's hunger for programming. It cranks out 6,000 hours of TV shows a year and its videos are popular in Southeast Asia, where they are often



INTERNATIONAL GENERAL MANAGER FUNG: TRADING FOR AD TIME

dubbed into local languages. But it could use help. To gain access to new technology, it is talking to Time Warner Inc., which a senior U.S. industry executive says wants to buy 10% of TVB. The network also needs partners for a proposed satellite service to challenge Star TV, Murdoch's Asian satellite network. For starters, it launched a satellite network in Taiwan last September.

The most promising market is in China. TVB recently struck barter deals with five stations to trade TVB programming

for free advertising time. In April, TVB put together a 40-hour syndicated light entertainment program for 22 Chinese cable systems. Empire building in China will take time. The government is encouraging foreign investment in media areas but prefers to control the waves. "It's not a top priority to spend hard currency on movies or TV programs," says Allan Ng, senior analyst at S. G. Warburg Securities (Far East) Ltd.

Meanwhile, promising markets beckon across Southeast Asia. TVB expects sales to skyrocket in Malaysia, Thailand, and even Cambodia as new commercial and cable stations clamor for additional programming. In Indonesia, TVB is linked up with Salim Group, the country's largest conglomerate, which has a new station set to air this spring.

MORE EDUCATED. TVB is no less eager to capture viewers half-way around the globe. It is taking over two Chinese cable stations in Canada. It also runs a Chinese cable network in California, and within two years it plans to upgrade the system by using a direct broadcast satellite to transmit directly to the home. TVB hopes it can snatch an affluent audience of over 1 million viewers, whose demographics would appeal to corporate advertisers. "The Chinese-American population as a whole has obviously high levels of income and education than Hispanics, African Americans, or whites," says Philip Y. Tam, senior vice-president for TVB Holdings (USA) Inc.

Still, some analysts wonder whether TVB is ready for prime time. Accustomed to grabbing the lion's share of ad revenues in a two-network market in Hong Kong, TVB has yet to prove it has the skills to play on more competitive turf. It also is facing stiffer competition at home. Long limited to TVB and rival ATV Television Ltd., the Hong Kong TV market finally is expanding with the entry of a cable system run by Hong Kong conglomerate Wharf (Holdings) Ltd.

The stations will be chasing a limited number of advertisers as companies start holding the line in Hong Kong while setting aside bigger ad budgets for China. But with TVB's expanding operations in China, it will be able to catch the advertisers at both ends. "It's one of my favorite companies in Hong Kong because it is so focused on its business," says Kirk C. Sweezy, director of research at Lehman Brothers in Hong Kong. That's the kind of reception TVB has earned for as it spreads its signal around the world.

By Joyce Barnathan in Hong Kong, with Bruce Einhorn in New York

TUNING IN TO TVB

PROGRAMMING Over 6,000 hours of Chinese-language programs annually, plus a 75,000-hour library

OPERATING AREAS Covers most of Asia, including Hong Kong, China, Taiwan, and Indonesia, through conventional and satellite broadcasts as well as cable networks; now expanding into North America

OWNERSHIP Controlled by tycoons Robert Kuok and Sir Run Run Shaw, who heads a Hong Kong film studio

GROWTH PLANS Seeking new partnerships with Time Warner, Chinese TV stations, and Southeast Asian conglomerates

DATA BUSINESS WEEK

A DHL delivery boat is shown on a narrow canal in Venice. Two DHL employees in red and white uniforms are on the boat, which is loaded with DHL-branded boxes. A gondolier is steering the boat, and several passengers are visible. In the background, there is a stone bridge and historic buildings.

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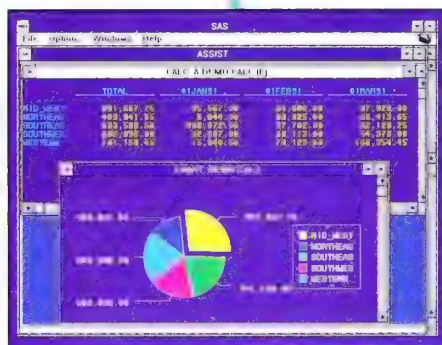
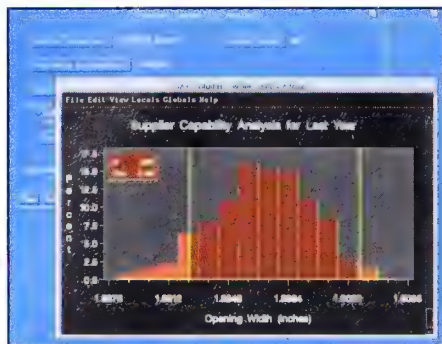
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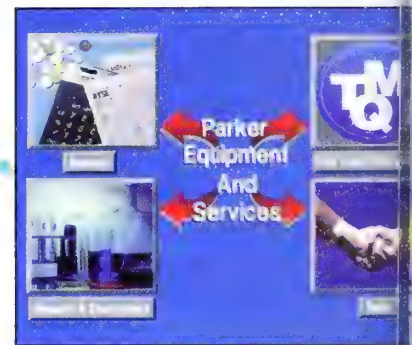
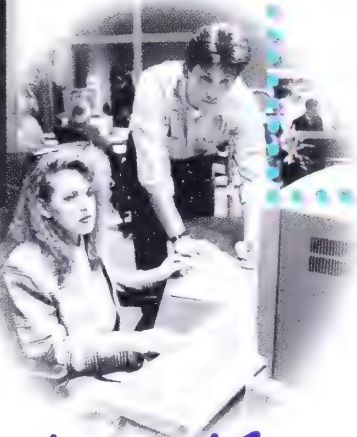
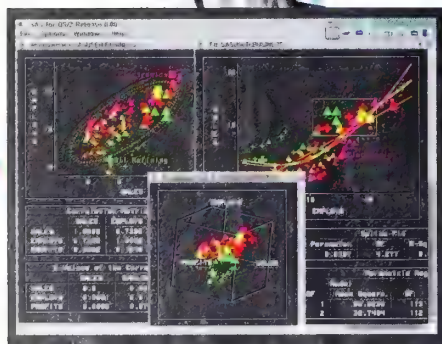
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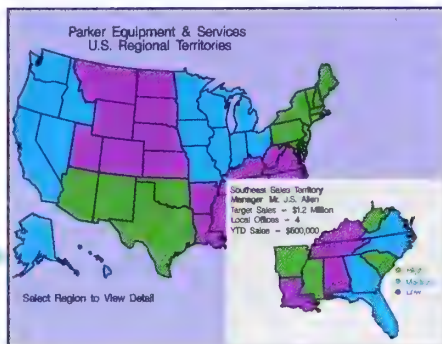


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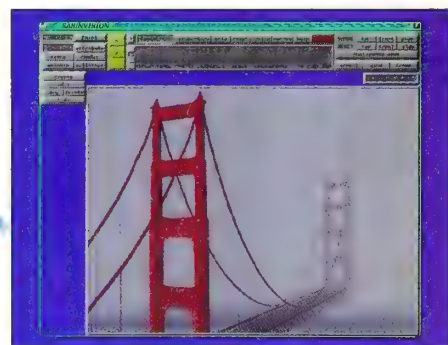
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System

Information Delivery

YOU THOUGHT '93 WAS ROTTEN FOR EUROPE? JUST WAIT

It's no secret around Europe that economic growth is the essential fuel of European unity. After suffering two years of political calamity and the worst economic downturn in 40 years, Europe's best and brightest are now daring to dream again. With a U.S. recovery solidly under way and a global trade accord in the bag, Europe's politicians look to 1994 as the year to resume the march toward superpower status.

But don't bet on it. Just as Europe's unity agenda has slipped further and further into the future, so the Continent's long-awaited recovery is likely to disappoint those banking on it to shore up the forces of eroding union. And try as it may, Europe can't seem to get a step ahead of the external political and economic forces that are whittling away at its cohesion.

While it's true that Europe will emerge from recession next year, most Europeans may be hard-pressed to notice the difference. EC growth is likely to come in lower than 1%, less than half what politicians are expecting. And Germany, Europe's biggest economy, is riding the edge of an unprecedented second consecutive year of declining output. More important, European unemployment, officially 11%, will rise to Eastern European levels of 16% next year once make-work and training programs are stripped out.

OUT OF CONTROL. With that as a backdrop, and elections likely in 9 of the 12 European Community member countries over the next two years, you have a surefire formula for jitters. Right-wing politicians are on the rise, workers are hitting the streets, and skinheads are attacking foreigners, so politicians such as German Chancellor Helmut Kohl and Spanish Prime Minister Felipe González will be tempted to let budget deficits go out of control. "There's going to be enormous pressure on governments to abandon the fiscal restraint" necessary to get European inflation rates and budget deficits in

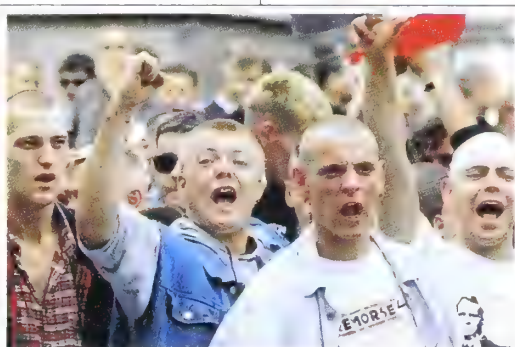
order and attract new investment, says Kim Schoenhof, Salomon Brothers Inc.'s chief Europe-watcher.

For Europeans, the General Agreement on Tariffs and Trade is a two-edged sword. While the trade accord will produce winners in such industries as pharmaceuticals and software, new losers will emerge in manufacturing and agriculture. It's only now beginning to dawn on European leaders that the years of focusing on the single market had a hidden downside: the isolation of Europe from the low-wage competitors it now faces. Stiffer competition may rob the Continent of hoped-for gains from falling interest rates.

Europe is also feeling insect about the world outside its borders. The emergence of ultranationalist politics in Russia's Dec. 12 elections (page 56) raised the specter of renewed turmoil on Europe's eastern flank and quickly quashed the good cheer lingering from Boris Yeltsin's visit to Brussels just days earlier. To agree on expanded Russian trade, NATO's unwillingness to embrace Eastern Europe for fear of irritating the Russians threatens to push countries such as Poland and Hungary to form their own security blocs.

Ironically, Europeans may find their best hope for restoring momentum not at home but in Washington. Prospects next year could well depend on the Clinton Administration's willingness to reverse its policy of depressing the dollar. A shift that boosts the greenback "would do more than the rest of Europe put together could do to stimulate job creation," says Michael Hughes, European strategist at British broker Barchard de Zoete Wedd Ltd. Such dependence is a far cry from the superpower status that European Commission President Jacques Delors once envisioned. But as a year of living dangerously looms, a U.S. savior may make all the difference.

By Bill Javetski in Poland



NEO-NAZIS IN GERMANY: HOW WILL KOHL REACT?

GLOBAL WRAPUP

PEACE IN NORTHERN IRELAND?

The violent struggle between the Protestant majority and the Catholic minority in Northern Ireland may be coming to an end. After 25 years of terrorism, 3,225 deaths, and an estimated \$150 billion spent publicly and privately to fight terrorism, British and Irish leaders on Dec. 15 released a painstakingly worded declaration of peace. The deal sets in motion a process that's likely to lead to Northern Ireland deciding whether to remain part of Britain or join the Irish Republic.

If all goes well, both sides should see economic gains. Without the huge

political risk that has dragged down Northern Ireland's economy, investment could begin flowing, attracted by a low inflation rate, low wages, and an educated work force—much as it has in the Irish Republic, a leading location for high-technology and health-care companies looking for a European foothold.

Despite the optimism, there's still much tension, as Britain anxiously awaits the responses of the Irish Republican Army and Protestant loyalist terrorists in Ulster. Says an assistant to British Prime Minister John Major: "One can imagine all sorts of people might resort to violence to wreck the process."

WELCOME BACK TO VIETNAM

Washington is giving a Christmas present to U.S. companies eager to break into the booming Vietnamese market, which has been off-limits for years. The Treasury Dept. will soon allow companies to do business as long as deals are funded in part by multilateral financial institutions. Executives had feared that Treasury would block their participation unless projects were fully or largely backed by such lenders. The changes are part of Clinton's ending of the embargo. In the past year alone, the number of U.S. companies seeking licenses to do business in Vietnam has grown from 50 to 300.

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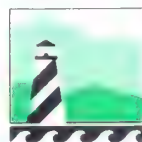
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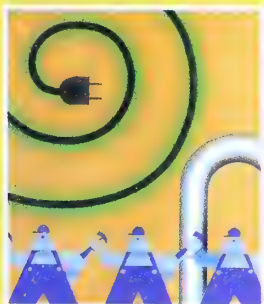
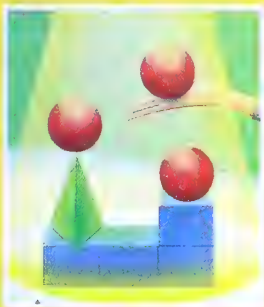


NORTH CAROLINA

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WHERE TO INVEST IN

1994



INTRODUCTION

► It ain't over till it's over—the bull market, that is. And as we see it, there's plenty of running room left, if you're on the right track **Page 66**

THE ECONOMIC FRAMEWORK

► Moderate growth, low inflation, minor rate hikes—the long wait to reap the recovery's rewards is over **Page 68**

STRATEGIES FOR STOCKS

► Small caps will climb, and takeovers add pow to the market. But the pros see trouble—and spell it I-P-O **Page 76**

THE INVESTMENT SPECTRUM

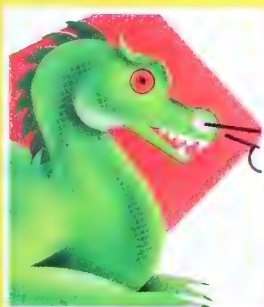
► The best bet in bonds. Also: mutual funds, commodity funds, a prettier art picture, and the earnings outlook **Page 110**

1993'S BEST AND WORST

► Gold was solid, and Turkey was juicy. But Tiphook was a scandal, and Angeles' REIT went all wrong **Page 136**

THE INVESTMENT SCOREBOARD

► We crunched numbers at 900 companies—highlighting those that sparkle from all strategic angles **Page 143**



JUST HOW HIGH IS UP?

STOCKS ARE ZOOMING, BUT THERE'S ROOM FOR GROWTH—IN MANY FIELDS

Just about every day, the U.S. stock market climbs to new highs. Big stocks and small, broad indexes and narrow are inching up into unexplored territory.

Ain't it awful?

If you listen to the prattle on Wall Street, it sure seems that way. The organs of conventional wisdom, from newsletters to analyst reports to the chart books of the technically inclined, are abuzz with the word that the market is as unsteady as a tightrope walker on Quaaludes. Look out below, they say.

It's a picture as believable as it is wrong. Never forget that the stock market invariably abides by what Dwight D. Eisenhower said about war: It will astonish you. And as the current phase of the bull market enters its fourth year, the biggest surprise is that it's still a long way from over.

The year ahead should astound the gathering army of bears. Yes, the market is at a record. But compared with overseas bourses, the U.S. is actually the epitome of moderation (chart). And the U.S. economy, compared with other industrial nations, is no underachiever. In the year ahead, the byword in the economy will be "productivity." Increased efficiency will boost profits faster in the U.S. than overseas—thus providing the underpinnings for a continuation of the bull market.

HANGING IN THERE. So if you're thinking about pulling out of the market and taking profits, think again. And that's where *BUSINESS WEEK*'s 1994 investment outlook can come in handy. This special double issue is a road map of the global landscape—where to go, how to get there, and what to avoid.

U.S. stocks generally, and small caps in particular, will remain an alluring destination in the year ahead (pages 80 and 84). To be sure, pitfalls abound, such as the overheated market for initial public offerings. But with inflation in check

and with the economy staging a slow but steady recovery, some of the best opportunities in the global arena are likely to be right here in the U.S. On page 68, we've set forth in detail the generally encouraging economic picture. A complete rundown of corporate earnings, with 1994 profit estimates for some 900 companies, begins on page 143.

Mutual funds are, of course, the best way to take a plunge if you've been sitting on a hoard of cash (page 110). The

income opportunities, as income-tax rates climb (page 118).

Overseas markets, too, should not be ignored, despite their scalding performance. Some of the hottest markets are in such regions as Latin America and Asia, and they are likely to remain alluring in the year ahead. Nevertheless, investors in the U.S. remain slow to embrace global investing, which is one of the best reasons to look abroad. We examine the world investment spectrum from Chinese bicycles to Mexican telephone companies, in the section beginning on page 96.

MATTRESS STUFFING. Gold, always a fickle metal, is beginning a slow but steady rise—perhaps above \$400 an ounce again (page 131). Real estate, too, is on the comeback trail (page 126). At a time when financial assets are on the front burner, commodity funds are worth a close look, at least by those investors who see a bear market lurking (page 122).

If all these choices seem dizzying, start out by doing what the pros do: Draw up an asset-allocation plan. We tell you how (page 76). When it comes to making stock picks, check out merger plays (page 86) and the Inside Wall Street section (page 88). Take a tip from one of the experts we've buttonholed to invest a theoretical

\$100,000. If you've struck it rich or you've simply been hoarding your greenbacks in a mattress or money-market fund, their insights should prove valuable (page 106).

As always, our compendium of the best and worst investments of the past year can serve as a guide to the latest fads and dogs on Wall Street (page 13). This year, we've gone one step further and have included a discussion of where not to invest (page 90). As any successful investor can tell you, not losing money is at least as important as making money.

By Gary Weiss in New York

THE U.S. IS A LAGGARD IN GLOBAL MARKETS

Country	Stock market performance*	
	In local currencies	In U.S. dollars
HONG KONG	84.4%	84.8%
SWITZERLAND	41.3	41.9
GERMANY	40.5	33.9
JAPAN	13.1	29.6
ITALY	41.4	24.2
SPAIN	50.8	23.9
FRANCE	22.5	16.3
BRITAIN	17.6	16.0
CANADA	19.3	14.0
U.S.	6.8	6.8
WORLD MARKET INDEX	17.0%	20.0%

*Jan. 1 through Dec. 13, 1993

DATA: MORGAN STANLEY CAPITAL INTERNATIONAL

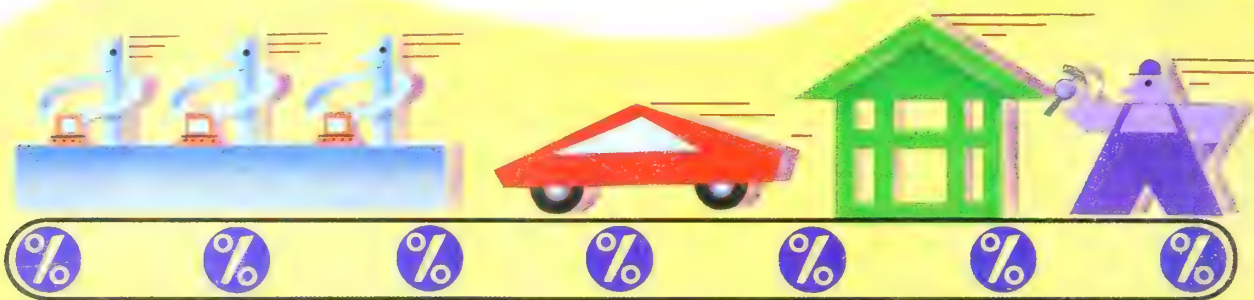
trick is not to get swept up by the fad of the moment. Precious-metals mutual funds could easily turn in 1994 returns as horrible as 1993's were terrific. Funds are the best way to test the waters in such tricky fields as junk bonds and overseas stocks, where professional management is crucial.

Bonds and bond funds are not likely to have as stellar a year in 1994 as in 1993 (page 114). And occasional inflation scares will send bond prices dropping temporarily. Here again, investor jitters are cause for solace—and should provide buying opportunities. Municipal bonds remain among the most attractive fixed-



AT LAST, THE RECOVERY IS COMING OF AGE

The year will bring an uptick in growth, while inflation and interest rates stay down



In March, 1994, the U.S. expansion will celebrate its third birthday. It looks as if the economy will be able to have its cake and eat it too.

Economic growth in 1994 will be a bit stronger than in 1993, and the icing will be another year of very low inflation. Interest rates may tick up, but the rise will be so small you'll hardly notice. The rest of the industrialized world will continue to struggle, limiting exports, but healthy demand in the U.S., plus corporate cost-cutting, will lift profits. And despite companies' urge to purge payrolls, the economy will create enough jobs to cut joblessness, generate income, and keep consumers spending.

MORE CONFIDENT. Sound like wishful thinking? Not at all. **BUSINESS WEEK** is even a touch more bullish than the consensus projection in our survey of 50 forecasts (table, page 69). We expect the economy to grow a moderate but healthy 3.2% in 1994, without the growth swoon that marred 1993's performance in the first half. We look for inflation of 2.7%, essentially unchanged from 1993. The yield curve will flatten, as the Federal Reserve makes a couple of small hikes in short-term rates and as tame inflation keeps long-term rates down. And we expect unemployment to dip below 6%, although that excludes the impact of government revisions, due in February, which will shift the rate up slightly.

As we see it, 1994 will be a year when workers feel more secure in their jobs and more confident about taking

on debt—elements

missing from the consumer outlook for the past three years. But at yearend 1993, confidence turned up, and growth in installment debt was booming, mainly because the U.S. generated about 2 million jobs in 1993, the most in four years.

That job pace should continue in 1994, and the quality of new slots will improve, aided by some hiring in manufacturing and construction. More jobs, plus low interest rates, will buoy demand for housing and durable goods. Still, this is no hiring boom, as companies trim labor costs to become more competitive. "Hiring will stay cautious," says Lynn Reaser at First Interstate Bank Ltd. in Los Angeles, "especially because of the uncertainty over health care."

Health-care reform will dominate the Clinton Administration's agenda in 1994. Businesses are wary that any plan will add to their labor costs, and most economists question whether the reforms will cut the nation's medical bills. "The idea that a bureaucracy can be more efficient than market forces just doesn't wash," says Joseph W. Duncan at Dun & Bradstreet Inc.

Potentially higher employment costs are why companies will keep pushing for greater efficiency. As a result, the surge in capi-

tal spending for equipment will continue in 1994. In the past two years, such investment, mainly in computers and other high-tech wares, has accounted for more than 40% of the economy's growth. The boom will be financed by rising profits, more equity financing by companies, and increased availability of credit to small businesses, as banks compete more for new loan business.

CHEAP OIL. The payoff from this investment and restructuring will be lasting productivity increases that will keep inflation and interest rates low. "Capital investments made in 1993 will show up as productivity gains in 1994," says Mary N. Harris at PaineWebber Inc. As a result, unit labor costs, which are inflation's basic fuel, are likely to grow at 1% or less for the third year in a row. That's less than the projected pace of price growth, so profit margins generally will have some breathing room.

Lower oil prices are the big bonus. If prices in 1994 stay some 1% below the 1993 average—or at about \$11 a barrel—the benefit would be a quarter-point more growth and a half-point less inflation, estimates Larry D'Andrea Tyson, who chairs President Clinton's Council of Economic Advisers. Cru-

CONSENSUS FORECAST: STEADY AS SHE GROWS



WHAT ECONOMISTS ARE PREDICTING FOR 1994

	Percent change in real gross domestic product				Real GDP	Consumer prices	Treasury yields		Jobless rate	
	1994						Percent change IV Q '93-IV Q '94	1994 IV Q		1994 IV Q
	I	II	III	IV						
JOSEPH CARSON Dean Witter Reynolds	3.7	4.0	4.3	5.0	4.3	3.6	4.50	7.00	6.0	
ARRY J. KIMBALL Univ. of California at Los Angeles	3.9	3.8	4.0	4.0	4.0	2.2	2.80	6.00	6.0	
ASON BENDERLY Benderly Economic Associates	4.5	3.5	2.5	3.5	3.5	3.2	3.50	6.80	5.8	
MORRIS COHEN Morris Cohen & Associates	3.6	3.2	3.6	3.6	3.5	3.2	4.50	6.50	6.0	
MICHAEL R. ENGLUND MMS International	3.0	3.5	3.5	3.5	3.4	2.9	3.55	6.00	6.0	
AIL FOSLER Conference Board	3.6	3.2	2.6	3.3	3.3	3.9	3.80	6.50	6.3	
HARLES LIEBERMAN Chemical Securities	3.2	3.0	3.3	4.0	3.3	3.4	4.75	6.90	5.9	
OBERT T. McGEE Tokai Bank	4.0	3.0	3.0	3.0	3.3	2.5	3.80	5.80	5.8	
AMES C. COOPER, KATHLEEN MADIGAN Business Week	3.0	3.1	3.3	3.5	3.2	2.7	3.55	6.35	5.9	
WILLIAM W. HELMAN Smith Barney Shearson	4.0	3.0	3.0	3.0	3.2	3.0	4.00	6.20	5.8	
OSANNE M. CAHN CS First Boston	2.8	2.8	3.5	3.3	3.1	3.3	3.30	6.25	5.8	
ONALD P. HILTY Chrysler	3.1	3.1	3.1	3.2	3.1	3.3	3.75	6.75	6.5	
LICKEY D. LEVY NationsBanc Capital Markets	3.2	3.0	3.0	3.0	3.1	2.6	3.60	5.90	6.2	
ERNARD M. MARKSTEIN Meridian Bancorp	2.7	3.2	3.6	2.9	3.1	3.1	4.10	6.30	6.0	
ENNETH T. MAYLAND Society National Bank	2.5	3.0	3.3	3.7	3.1	3.2	3.60	6.25	6.2	
EDWARD YARDENI C.J. Lawrence	3.0	3.0	3.2	3.2	3.1	2.0	3.00	5.00	6.3	
AUL W. BOLTZ T. Rowe Price	2.6	2.8	3.1	3.6	3.0	3.1	4.00	6.90	6.2	
URT E. KARL WEFA Group	3.0	2.9	3.1	3.1	3.0	3.4	3.50	6.20	6.5	
ARL J. PALASH MCM MoneyWatch	3.0	2.5	3.0	3.5	3.0	2.5	3.00	6.00	6.5	
ONSTANTINE G. SORAS Nynex	3.7	3.0	3.0	2.4	3.0	3.4	3.55	6.88	6.3	
ONALD H. STRASZHEIM Merrill Lynch	3.0	2.8	3.1	3.2	3.0	2.7	3.90	5.90	6.3	
ETER L. BERNSTEIN Peter L. Bernstein	3.0	3.3	3.3	2.0	2.9	3.3	4.00	6.50	6.3	
LADI CATTO Texas Instruments	3.0	2.0	3.5	3.0	2.9	3.0	3.50	5.90	6.0	
IECZYSLAW KARCZMAR Deutsche Bank	3.0	3.3	2.8	2.5	2.9	3.6	3.90	7.10	6.0	
WRENCE A. KUDLOW Bear Stearns	4.0	3.0	2.4	2.2	2.9	3.3	3.70	7.00	6.1	
LAURENCE H. MEYER Laurence H. Meyer & Associates	3.0	2.9	3.1	2.5	2.9	2.8	3.60	5.90	6.1	
NN REASER First Interstate	3.0	3.1	2.9	2.5	2.9	3.2	3.75	6.40	6.3	
ING WON SOHN Norwest	3.0	2.6	2.5	3.5	2.9	2.9	4.25	6.50	6.3	
ODGER BRINNER DRI/McGraw-Hill	2.8	2.9	2.2	3.1	2.8	3.2	3.59	6.24	6.1	
AY C. FAIR Fairmodel, Macro Inc.	3.2	3.0	2.6	2.4	2.8	3.0	3.20	6.10	5.7	
ONALD RATAJCZAK Georgia State University	2.7	2.0	3.0	3.5	2.8	3.1	3.76	6.49	6.4	
DAVID M. BLITZER Standard & Poor's	2.6	2.3	2.9	2.8	2.7	2.7	3.30	6.00	6.3	
UART G. HOFFMAN PNC Financial	2.7	2.6	2.6	2.7	2.7	2.9	3.75	6.30	6.2	
ETER J. KLENOW Univ. of Chicago Business School	2.0	2.2	3.0	2.6	2.7	3.3	3.70	6.90	6.4	
OSALIND WELLS NPD Group	2.4	2.6	2.9	3.1	2.7	3.0	3.50	6.00	6.2	
JOSEPH W. DUNCAN Dun & Bradstreet	1.7	2.4	2.9	3.4	2.6	2.7	3.40	6.50	6.2	
AURY N. HARRIS PaineWebber	2.1	2.1	2.9	3.2	2.6	2.5	3.50	6.20	6.1	
OWARD L. KEEN Conrail	2.4	2.8	2.5	2.6	2.6	2.9	3.50	6.50	6.5	
MICHAEL R. PASLAWSKYJ CIT Group	3.1	2.7	2.5	2.3	2.6	2.3	3.10	5.90	6.3	
CHARD B. BERNER Mellon Bank	3.5	1.5	2.5	2.5	2.5	2.7	3.60	5.75	6.0	
CHARD A. STUCKEY DuPont	2.9	2.1	2.4	2.6	2.5	3.4	3.50	6.20	6.4	
OBERT BRUSCA Nikko Securities	2.8	1.5	1.5	3.7	2.4	3.2	3.75	6.55	5.9	
RY L. CIMINERO Fleet/Norstar Financial Group	2.0	2.4	2.7	2.6	2.4	3.1	3.53	6.76	6.2	
CHARLES B. REEDER Charles Reeder Associates	2.9	2.9	2.1	1.8	2.4	3.0	3.30	6.50	6.5	
INCY J. KIMELMAN Technical Data	2.3	2.8	2.0	2.0	2.3	3.3	3.25	6.30	6.4	
HN E. SILVIA Kemper Financial Services	3.3	3.1	2.5	2.7	2.3	3.0	3.70	6.30	6.2	
UL H. HYMANS RSQE, Univ. of Michigan	2.9	2.3	1.8	1.9	2.2	3.2	3.15	6.51	6.3	
GARY SHILLING A. Gary Shilling & Co.	0.9	2.0	2.0	2.0	1.8	2.0	2.50	5.00	7.5	
ILIP BRAVERMAN DKB Securities	2.0	1.0	1.3	2.5	1.7	2.2	2.65	5.50	7.2	
BERT H. PARKS Robert H. Parks & Associates	4.0	1.0	-1.0	2.0	1.5	1.5	2.50	5.00	7.7	
ENSENSUS	3.0%	2.7%	2.8%	3.0%	2.8%	3.0%	3.6%	6.3%	6.2%	



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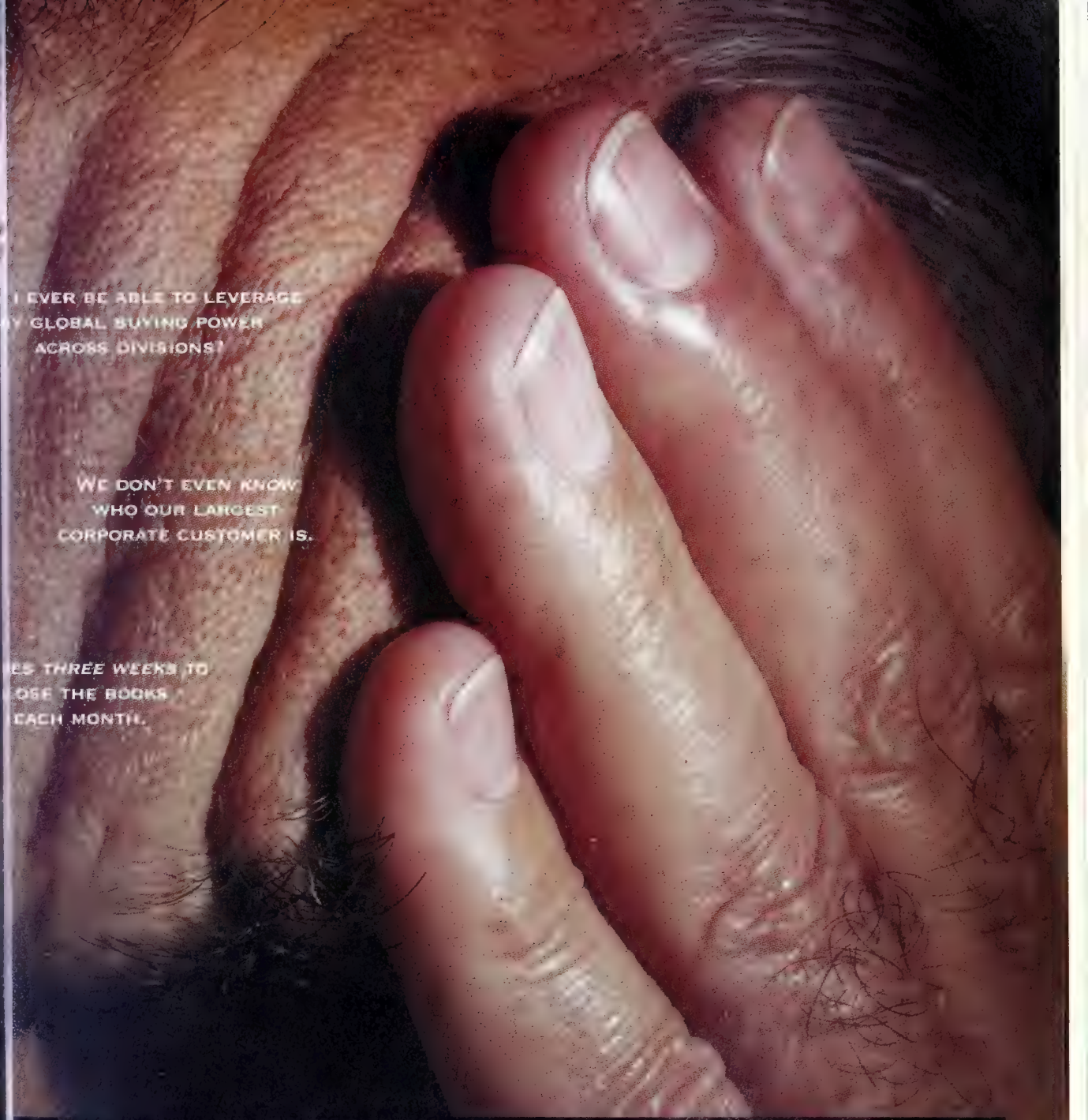
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HURON

The Whole In One

oil prices could stay down, given the weakness in Europe and Japan and given that Iraq—OPEC's second-largest producer—may well be back in the market.

Low inflation will make the Fed's job easier, so the Administration and the Fed could have another year of policy harmony. Edward E. Yardeni at C.J. Lawrence Inc., who expects inflation to dip to 2%, says: "The Fed should just take 1994 off and call in for messages."

BABY STEPS. Most economists, however, think the central bank will look beyond 1994 in an effort to preserve its hard-won gains against inflation, especially if the economy looks solid. By spring, the Fed is likely to begin an ever-so-gentle preemptive tightening of monetary policy. It will probably be a baby-steps approach that follows market rates, similar to its easing strategy in the early 1990s.

A couple of quarter-point hikes in the federal funds rate by yearend is unlikely to roil the Administration, which is already forecasting slightly higher rates, and the economy won't even blink. In fact, a show of inflation-fighting resolve might help hold down long-term rates.

The economy would be a lot stronger in 1994 if it were not for the continuing

.....

If inflation stays as low as 2%, "the Fed should just take 1994 off and call in for messages"

.....

defense cuts and widening trade deficit. Without the declines in these two sectors, growth would have been 4% in 1993, instead of less than 3%. Both of these drags, however, should diminish in 1994. Also, the three-year slump in commercial real estate has hit bottom, although the climb back will be slow. David M. Blitzer at Standard & Poor's Corp. points out that vacancy rates, while still high, are finally coming down.

Moderate U.S. growth in 1994 will bring in more imports—causing some further worsening of the deficit. Already in the past two years, imports' share of domestic demand has soared to a record 24%. Rising imports are not all bad for the economy, though. They will help to keep inflation in check. That's because America's growing appetite for imports and tons of capacity overseas will hold

down goods prices, even as industrial operating rates in the U.S. rise to levels usually associated with production bottlenecks and price hikes.

Foreign trade will also be hurt by the problems overseas. Europe and Japan are about three years behind the U.S. in their recovery process. As happened in the U.S. in 1990, recessions in Europe and Japan have exposed structural problems, such as the inefficient use of workforces and excess public spending, that will have to be fixed before those economies can once again compete effectively in the global marketplace. Weakness in Europe and Japan will detract further from U.S. export growth, although robust demand from developing nations in Asia and Latin America will offset some of that fall.

Fewer foreign customers means the U.S. will have to depend upon domestic demand for its fuel in 1994. But with American companies already well ahead in the global competitiveness game, the economy stands to benefit as the rest of the industrialized world picks up. That's part of the 1995 outlook.

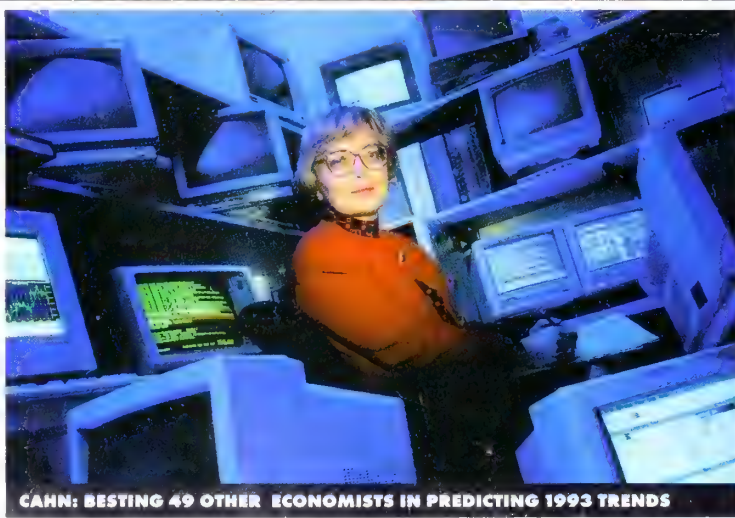
By James C. Cooper and Kathleen Madigan in New York

ROSANNE M. CAHN

THE SAVVIEST SOOTHSAYER OF ALL

Rosanne M. Cahn hit the bull's-eye in 1993. When scored against the 49 other economists in BUSINESS WEEK's December, 1992, survey, the CS First Boston economist had at least the third-closest forecast in seven of the nine categories that covered economic growth, inflation, interest rates, and unemployment.

How did she do so well? Cahn admits that she is "amazed" that other forecasters did not foresee the first-half slowdown. "Forecasting uses things that are knowable," she explains. "And what was knowable at the end of 1992 was that post-hurricane purchases and the shifting forward of bonuses to avoid taxes would boost fourth-quarter [1992] spending at the expense of early 1993." And because Cahn projected economic growth at just 2.3%, she correctly expected lower inflation and only modest improvement in the unemployment rate.



CAHN: BESTING 49 OTHER ECONOMISTS IN PREDICTING 1993 TRENDS

Others reading the economic tea leaves fairly accurately included: BUSINESS WEEK's economists; Lloyd T. O'Carroll of Reynolds Metals; and Allen Sinai, now at Lehman Brothers.

For 1994, Cahn foresees the economy growing at a 3.1% pace, with the major emphasis on capital goods, especially computers: "The substitution of capital for labor will continue, especially as the relative cost of labor keeps rising."

In Cahn's view, low interest rates and advances in the computer industry have sharply cut the cost of capital equipment. At the same time, government mandates such as raising the minimum wage and Clinton's health-care proposals continue to exert upward pressure on the cost of workers.

KID CARE. Moreover, these cost differences won't narrow soon, considering Washington's emphasis on family-and-work issues. Observed Cahn: "Machines don't go home to take care of sick kids."

Of course, surprises could upset the 1994 forecasts as they did in 1993. Cahn points to the March blizzard and summer floods as two shocks to the 1993 economy. "Certainly, no one could have known how bad the weather would be," she says. After all, Cahn and the others are economists, not meteorologists.

By Kathleen Madigan in New York



When you were a kid you made yourself a promise.



Maybe this is the year you make



Good on it.

So you never hit one out of Yankee Stadium, or headlined at the Garden like you planned. You can still drive a Corvette. And it's even more fun than you imagined it as a kid.

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So, even though you've wanted a Corvette for as long as you could reach the accelerator, it's probably a good thing you waited until now. Because the 1994 Corvette is the best one yet.

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AND THE WINNER IS . . . STOCKS, BY SEVERAL LENGTHS

The asset-allocation specialists may use different models, but they all favor equities

With the stock market reaching unexplored heights, about the last thing that DeWitt Bowman wants to do is embark on a \$4 billion stock-buying binge. But Bowman, the cautious chief investment officer for the \$79 billion California Public Employees' Retirement System (CalPERS), has his marching orders. Because of lower interest rates on bonds and the outlook that rates will remain low, the Board of Administration of the nation's largest public pension fund decided to increase its equity investments from 50% to 55% of the fund's assets. "It's hard to implement that with the market so high," sighs Bowman, "but we'll do it."

Welcome to the world of asset allocation. Whether we realize it or not, we are all asset allocators—from mega-investors such as Bowman to employees moving money around their 401(k) plans or retirees pulling money out of banks to seek higher returns. Some allocators do it with a pencil and pocket calculator, others with supercomputers. But they're all driving at the same thing: to create a mix of assets that will hit the sweet spot where the investor gets the most return for the least risk.

SOLID FORECAST. BUSINESS WEEK has surveyed Wall Street's leading investment strategists who develop asset-allocation models for their clients. Looking at what these strategists apportion to stocks, bonds, and cash, one thing is clear: Stocks are the favored investment (table). The strategists come to that conclusion through a variety of methods. PaineWebber Inc.'s Edward M. Kersch-

ner employs a totally quantitative approach that uses such information as analysts' earnings forecasts and the current level of interest rates. He then runs it through a computer model that compares relationships on the returns among stocks, bonds, and cash over time. His recommendation: 72% of your assets should be in stocks.

Eric T. Miller, investment strategist at Donaldson, Lufkin & Jenrette Securities Corp., also uses quantitative models, but he may modify his results for variables that can't be reduced to numbers, such as the Washington political scene. President Clinton's standing on

Wall Street is now better than it was six months ago, according to Miller, "but the investment community is still suspicious of him."

The most bullish allocation in the BUSINESS WEEK survey comes from CS First Boston Corp.'s Jeffrey M. Applegate, who has put 80% of his stake in stocks, 20% in bonds, and nothing in cash. That doesn't mean he's expecting a runaway bull market for stocks. In fact, his forecast is an 11% total return (appreciation plus

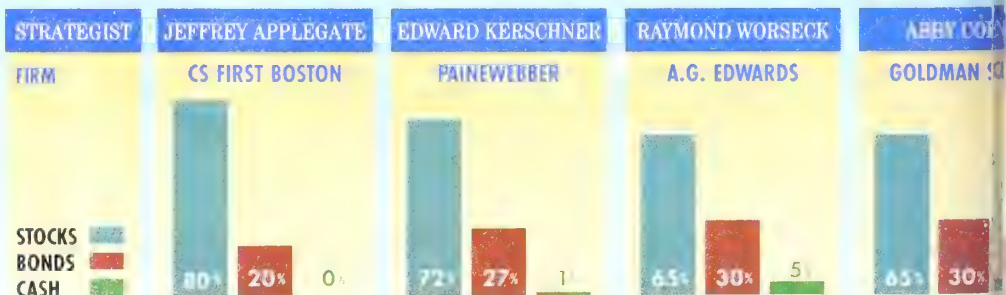
dividends) for stocks, which is about the long-term average. But it's nearly double the 6% he expects to make from bonds. Indeed, for bonds to earn any more, interest rates would have to plummet anew, as the result of a bond-market rally. With a solid economy expected in 1994, that's an unlikely event. As for his zero allocation to cash, he says: "In this environment, cash has no investment merit."

INSURANCE POLICY. With short rates on the floor, few strategists would argue with that. But most prefer to keep a little cash just



HOW THESE INVESTMENT STRATEGISTS WOULD DIVVY UP YOUR MONEY

DATA: BUSINESS WEEK



same. Cash never goes down in value while stocks and bonds can, so it's a part of an insurance policy should the markets turn south. Even more, the account is where you park money when you have taken profits in one asset and are waiting to redeploy. If investors have been following the strategists' advice, the cash they have raised will come from profit-taking in bonds, stocks, and it's meant to be spent. As Charles I. Clough, investment strategist for Merrill Lynch & Co., says, "You should be looking for opportunity." But stocks are the asset of choice, why not just buy them and ignore bonds? Not a good idea, especially if you're dealing with a retirement plan that you are absolutely sure you won't tap for decades. Stocks are the riskiest of the three basic asset classes, and the year-to-year returns can swing wildly. But the longer the investment horizon, the more likely you should own. According to Ibbotson Associates, stocks have provided a positive return during 47 of the last 67 years (1926 to 1992). That's 70% of the time. If you look at 58 10-year periods, 53 had positive returns 97%

of the time, outpaced inflation 88% of the time, and were the best-performing asset-classes 84% of the time.

True, most pension funds have long-term horizons. But they also have to meet obligations to retirees who are collecting benefits now and will in the next several years. Investors at such funds can't take the risk that stocks will swoon in the short term, even though they may show superior returns in the long run. That's why pension funds hold bonds to create a balanced portfolio.

OVERSEAS ASSISTANCE. But even balanced investors don't stand still. When the outlook for stocks is superior to bonds, as it is now, they may ramp up their allocation to the equity side. These cautious investors, such as the board members at CalPERS, make their asset-allocation changes in small increments. However, because their portfolios are so enormous, a 5% or 10% tilt toward or

away from equities or bonds can have a huge impact on prices and the markets. That's why even if you're only investing the funds in your individual retirement account, you have to know how the big investors are moving their money around.

While the basic asset-allocation process uses U.S. stocks, U.S. bonds, and cash, many investors are widening their investment choices. CalPERS' Bowman, for instance, can use privately placed equity and foreign stocks in his overall equity allocation. At the moment, about one-

ACTION

Boost the equity portion of your portfolio, and don't forget to include some foreign stocks

quarter of Bowman's equity investments are in foreign markets, or 13% of the total fund.

Indeed, those who have counted foreign stocks as part of their equity holdings have been richly rewarded over the past year as foreign stocks, on average, have outperformed domestic stocks 3 to 1. In addition, many analysts believe that foreign stocks will beat American stocks again in 1994. Besides potentially

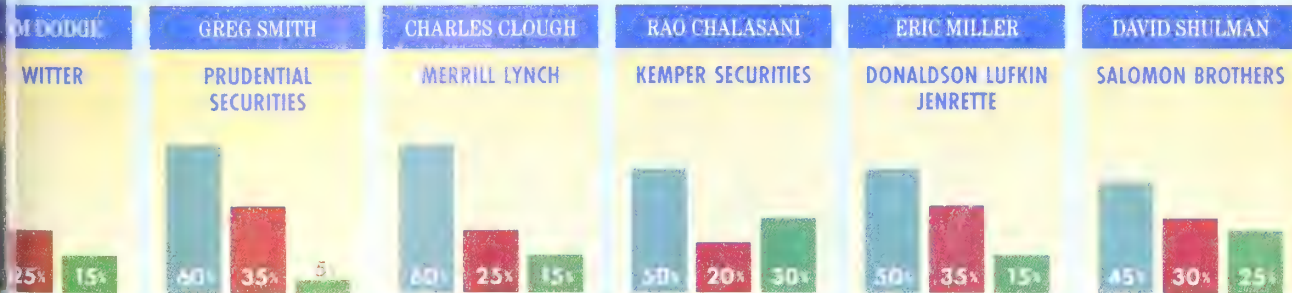
higher returns, offshore markets don't move in tandem with Wall Street. "Even if you have a portfolio of different equity mutual funds, you don't really have diversification until you have foreign funds as well," says Edmund M. Notzen, who runs T. Rowe Price Spectrum Growth Fund, a fund which invests in other mutual funds.

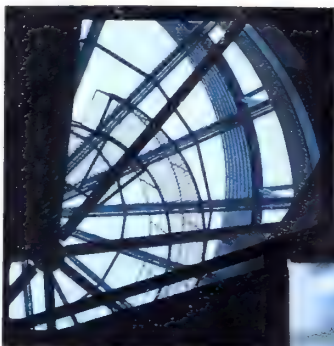
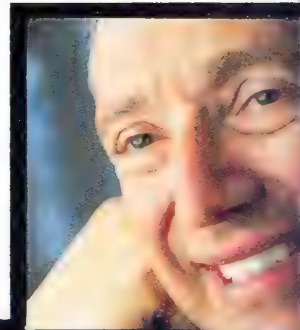
Big pension funds and wealthy individuals have high-priced consultants to help them crunch numbers and allocate assets. Individual investors can get help from brokers and financial planners on strategic asset allocation—setting the long-term allocations to meet investment objectives. But there's not much help if they prefer fine-tuning the allocations based on the changing environment.

That's why the Fidelity Asset Manager Fund has grown from \$3.3 billion to \$8.4 billion this year. The fund's mix now is 46% stocks, 42% bonds, and 12% cash, which is a little lighter on stocks and much heavier on bonds than most strategists. But more than half of the bond allocation is in foreign bonds, which are benefiting from falling interest rates abroad. Half the total portfolio is in non-U.S. investments. The fund is up 21% so far this year—beating the funds and strategists who stayed at home.

U.S. stocks and bonds had near-identical returns in 1993. So as long as allocators stayed out of cash, they did just fine. But 1993 is more the exception than the rule, and how investors divide their assets can spell the difference between a mediocre and a swell year.

By Jeffrey M. Laderman in New York





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So we thought there had to be other young couples like us with good taste and no money. We were 23 years old and we really had no understanding of retail. But we were very ambitious and very hungry.

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philosophy. Nowadays, things have to be accessible. We want people to pick them up and touch them. We want people to see something and say to themselves, 'I love this. Wow, I can buy this.'

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over the packing crates and barrels. Then we stacked up the dinnerware and glassware, and said, 'That'll tell a story that you can't tell any other way.'

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**Gordon Segal
Co-Founder, Crate & Barrel**



THE BULL HAS ONLY BEGUN TO CHARGE

The market is entering its second phase, when earnings accelerate

Hard-charging, determined, and utterly macho, the bull has long been a symbol of rising markets.

With a 59% gain over the last three years, things have been so good for so long that a growing number of investors fear the bear will come out of hibernation and maul the aging bull. But perhaps the most fitting symbol of the stock market today is neither bull nor bear, but bunny. You know, the rabbit in the battery commercial, the one that keeps going and going and going....

The bunny's batteries still pack a lot of energy. They're charged up with the power of low interest rates, rising corporate profits, and plenty of cash. That money is coming from individual investors via equity mutual funds. In the first 10 months of the year, the funds took in more than \$100 billion, and they continue to collect money at a brisk rate.

SURPRISES. So 1994 is shaping up as a good year for the equity market, mainly because the economy—32 months after it officially emerged from recession—is finally starting to show some decent growth, and that's already showing up in corporate profits. Elaine M. Garzarelli, director of sector analysis at Lehman Brothers Inc., notes that since the third quarter, twice as many companies have been reporting "positive earnings surprises"—better than expected—as negative surprises. Says Garza-

relli: "That will make analysts start to raise earnings estimates, and that always helps the stock market move higher."

Higher profits and a stronger economy could cause the Federal Reserve to

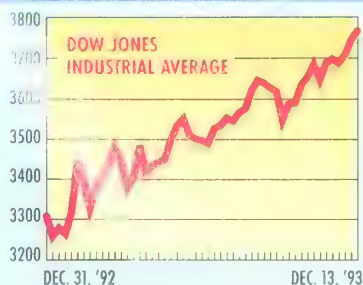
push up short-term interest rates. That would have been a disaster for the stock market a year ago, but a modest increase shouldn't be a problem now. The first part of the bull market gets its strength from falling interest rates and the liquidity it provides. The second phase gets its strength when earnings accelerate, and that's the stage the market is in now. The big problem comes when earnings growth accelerates or interest rates accelerate. Neither should be a problem in the near future.

That's why strategists are upbeat about 1994. Abby Joseph Cohen, co-chairman of the investment policy committee at Goldman Sachs & Co., figures stocks should deliver a total return (appreciation plus dividends) of about 12% to 14%. That may not sound like a lot, but the average annual total return to stocks is 10.3%. If Joseph is right, the Standard & Poor's 500-stock index, now at 466, could climb as high as 516, at the Dow Jones industrial average, now at 3700, up to 4150.

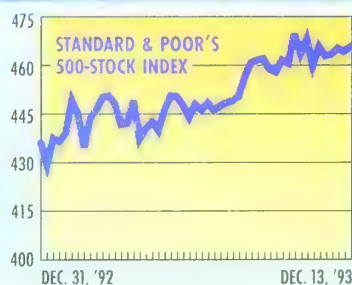
PRICEY PURCHASE. Even one of Wall Street's least bullish strategists, David Shulman of Samuel Brothers Inc., doesn't think there will be a disaster. "It will be a more difficult year than 1993," he says. Still, Shulman expects the S&P 500 to stand 8% to 9% higher when



THE DOW
IS RACING AHEAD...



...WHILE THE S&P 500
CLIMBS MORE SLOWLY



DATA: BRIDGE INFORMATION SYSTEMS INC.

books are closed on 1. Counting dividends, 's still an 11% return, ch beats what invest- will do in bank ac- ats or even bonds.

the forecasters are it about 1994, the k market will deliver tive gains for the th year in a row. t strikes an increas- number of investors unlikely. Why? The ket is starting the with the major aver- s at record high lev- dividend yields are record lows, and val- on measures such as e-to-book ratios and e-to-earnings ratios also reaching for their is. "I like to buy t's cheap, and by no ns are stocks cheap."

Robert A. McLaugh- chief investment offi- for the \$29 billion y Public Employees' rement System. Over past 15 months, he cut the pension fund's k allocation from 30% 1%. "That's less than d on the eve of the ber, 1987, crash," he s.

he bearishness grips sletters whose read- are mainly individual stors. The publication er Digest, for instance, recently col- d the 1994 forecasts of 40 such sletters. The tally: 60% bearish, 40% sh. In addition, the bears were also more downbeat than the bulls were nistic. The bears' average forecast a 16% drop; the bulls came up with % gain. All of this bearish senti- t gives the stock market a lot of i to move up. Market tops are usu- punctuated by excessive optimism an absence of pessimism.

SAVINGS TIME. Of course, sentiment ators can change quickly. But there underlying forces in the economy are turning investor dollars toward s, and such trends take years to out. The billions that have poured equity mutual funds since 1991 are only a response to lower interest s. Demographics is playing a major as well, as baby boomers move into age when individuals build up sav- . They're choosing stocks because eir superior long-term returns.

or much the same reason, some mar- watchers think pension funds will be forced to increase their alloca-

STOCKS FOR AN EXPANDING ECONOMY

Stock	Price*	P-E ratio**	Dividend yield
AMR	68%	13.5	NA
A strike wiped out '93 profits, but analysts think cost-cutting, lower fuel prices, and a better economy will make the airline soar in '94.			
CENTEX	39%	12.9	0.5%
Housing is more affordable than it has been in two decades, which is great news for a company that builds new homes.			
CHASE MANHATTAN	32%	7.5	3.7
Fear of higher rates makes many shun bank stocks, but with more capital and lower costs, money-center banks can still deliver gains.			
DEERE	69%	13.6	2.9
Leading manufacturer of farm and construction equipment should prosper with improving world economy.			
FLUOR	42	18.9	1.2
This engineering and construction company builds the industrial infrastructure that's needed in developing countries.			
FORD MOTOR	64%	11.3	2.5
The Big Three are all booming. Ford, which is up only 51% this year, may be the best play for '94.			
IBM	57%	28.4	1.7
Analysts are finally saying nice things about Big Blue, yet institutions own little of it. Good news on profits could trigger a buying stampede.			
INTEL	57%	9.8	0.4
Its chips are the brains of most computers today and will probably continue to be in the future. Stock is cheap.			
KNIGHT-RIDDER	59%	18.2	2.4
Advertising lineage is picking up along with the economy, and that's a plus for one of the nation's largest newspaper publishers.			
WMX TECHNOLOGIES	27%	14.6	2.2
Stock so beaten up, there's little downside risk. Better economy should lead to higher trash volume and fatter profits.			

*Dec. 13, 1993 **Based on 1994 consensus earnings forecasts from Institutional Brokers Estimates System
DATA: BUSINESS WEEK INTERVIEWS WITH PORTFOLIO MANAGERS AND ANALYSTS

tions to stocks. At current and prospec- tive rates of returns, bonds just won't generate enough of a return to meet the funds' long-term obligations. "That's the next wave of money to hit the stock market," says Edward M. Kerschner, chairman of PaineWebber Inc.'s investment policy com- mittee. When the money hits the market, it will continue to hunt for opportunities in economically sensitive stocks, or cyclical, much as it's done all year. That's why the Dow industrials, up 14%, has outpaced the S&P 500, which has only gained 6.9%. Cycli- cals weigh more heavily in the Dow than in the S&P.

In fact, the brightest spot in the Dow so far this year is the cyclical General Motors Corp. At 56, GM is up 78% so far this year, and on Dec. 9 finally beat the all-time high set in 1965. The other automobiles are racing along as well. Chrysler Corp., up 75%, and Ford Motor Co., up 50%, are also in the

fast lane. Market analyst Laszlo Birinyi, who tracks money going in and out of stocks, says the auto- motives are still compel- ling buys. "Every time the stocks pull back a lit- tle, fresh money comes rushing in."

Many pros also rank the housing industry, helped by low interest rates and more affordable home prices, as a buy for 1994. That includes home- builder Centex Corp. and companies that make any kind of item for the home: Crane for plumb- ing fixtures, Whirlpool for appliances, or Ethan Allen for furniture.

DRAWN OUT. Another im- portant theme for 1994 is "productivity." That's the buzzword for companies whose products "help business do more with fewer people or get more out of human labor," says William E. Dodge, mar- ket strategist for Dean Witter Reynolds. Pro- ductivity plays include Deere, Fluor, and Inger- soll-Rand in capital goods, and computer-related companies like Compaq Computer, Intel, Micro- soft, Motorola and Ora- cle Systems.

Tech stocks are allur- ing to foreign money managers who hold U.S. technology in high regard. "Europe- an clients tell me if you're serious about the whole technology story, about multi- media delivery and telecom services, you have to end up in U.S. companies," says Michael Young, Merrill Lynch's London-based in- vestment strategist.

Even the most upbeat in- vestors fret that stocks have not had the 10% cor- rection typical of bull mar- kets. But then again, this is no typical bull market. The economy didn't come out of recession with hard- charging gains but amassed its strength slowly and is far from peaking. Likewise, the market advance linked to the economy is likely to be a drawn-out affair.

Should the stock market bunny lose power sometime in the next few months, relax. The batteries aren't dead; all they need is a little time for recharging.

By Jeffrey M. Laderman in New York

ACTION

With the econ- my picking up, buy cyclical stocks, especial- ly technology, auto, and capi- tal-equipment companies

Even now, Chicago's scoff-laws recall the sport warmly. • You took a parking ticket. Folded it. Crumpled it. Then, simply booted it away. • Thirteen thousand parking tickets written each day. Maybe, on a charitable day,

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10 percent paid. • But if you're thinking of playing that game these days, officials have one word of advice: Don't. • Sun computers have been installed. And they are very, very effective. • Claim the meter was broken, and a Hearing Officer will check a "meter database" on a Sun computer. Protest the ticket isn't yours, and a scanned image of the original is pulled from a database. Yell that you're in a hurry, and all these





jobs can be done at once, because Sun computers can do more than one job at once.

• "With document imaging based on Sun hardware, we save citizens time, and the city money," Judith Rice, Chicago's revenue director, proudly says. • There's more to this story, of course — revenue increases of 400 percent, limiting property taxes — but it looks like our time is up. • And you know what

that means. • Sun computers. Just the ticket, it seems, for the City of Chicago.

• More than 135,000 organizations are using Sun systems, powered by the SPARC chip and the Solaris operating

environment, to gain a competitive edge.

The City of Chicago is just one. To learn how you can benefit, call

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The Network Is The Computer

SMALL CAPS: STILL NO CAP IN SIGHT

Their runup should continue in '94 with low rates, a strong cash influx, and a bit of bearishness

At a time when overseas markets are leaving the U.S. in the dust, only one strategy seems sure to pay off handsomely: Think small. Small-capitalization stocks were the standout performers of 1993. Driven by a hot initial public offering market and undeterred by a falloff in health-care issues, secondary stocks handily beat the overall market, climbing 14.1% in the year to date vs. 6.9% for the Standard & Poor's 500-stock index.

Will this strategy continue to pay off for investors in 1994? That's a dicey question because small caps are among the most volatile segments of the stock market. But the answer is decidedly affirmative. All of the fundamental factors that were present at this time last year, from modest valuations to a healthy but not overheated influx of mutual-fund cash, are continuing to drive the market for secondary stocks.

PRICE PRESSURE. The case for small caps as a market-cycle phenomenon is equally compelling. "There's no risk to the cycle coming to an end in 1994—so long as valuations stay good," remarks Claudia E. Mott, a quantitative analyst at Prudential Securities Inc. and a leading small-cap guru. The valuation numbers are certainly encouraging: Price-to-earnings and price-to-book ratios of small-cap stocks, as compared with large stocks, are actually below their long-term average, according to the number-crunchers at Prudential Securities. And the great enemy of small-cap rallies—overoptimism—remains in check. Mutual-fund cash levels among small-cap-oriented "aggressive growth" funds, which dropped to a troublesome 7% in

September, climbed above 10% in October, the most recent month for which figures are available.

The fund numbers bear close watching. But so long as a tide of bearishness continues to tug at the small caps, the rally should continue. Indeed, secondary-stock watchers such as Mott, who were strongly bullish on small stocks a year ago as

on the small caps was the health-care sector, which makes up a hefty 13% of the index. Health stocks were decimated by the fallout from Clinton's health-care plan. The other main area of distress was the consumer staples group, encompassing food, beverage, tobacco, and other



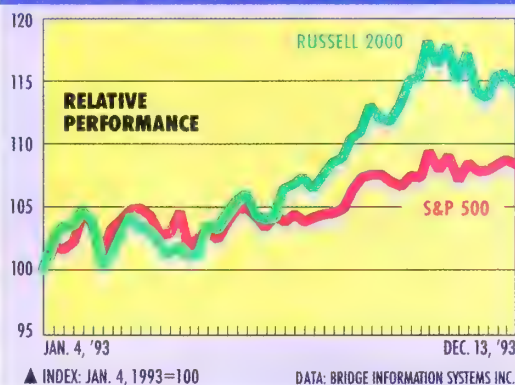
well, are seeing their predictions resoundingly vindicated.

A sector-by-sector breakdown of the small-cap universe illustrates the broad-based character of the small-cap advance (table). According to Frank Russell Co., only 2 of the 12 categories in the Russell 2000 index, the leading small-cap barometer, declined during the year. One drag

on cyclical stocks, many of which did poorly during the year. But the malaise in consumer stocks and health care was offset by a rally in technology stocks, which made up some 14% of the small-cap gauge.

A resuscitation of health-care stocks

SMALL STOCKS HAVE BEATEN THE BIG BOYS



posit Guarantee National Bank in Jackson, Miss., West One Bank in Boise, Idaho, and First American National Bank in Nashville. Says Thorsell: "I think you're going to see a 20% to 25% move in some of these banks."

Thorsell is also moving money into bedraggled health-care stocks, retailers, and—despite the runup there—technology. His picks include Merry-Go-Round Enterprises Inc., a Joppa (Md.)-based retailer, and Fisher Scientific, a laboratory-supply manufacturer trading at 33, with a p-e of 18, which Thorsell expects to rise to as high as 45 in the next 6 to 12 months. He recently took a substantial position in Exide Electronics Inc., a leading manufacturer of uninterruptible power supplies for computers. Exide is moving into small-size comput-

ers that are becoming more popular. It's trading at 16—less than 10 times its estimated 1994 earnings, which Thorsell expects will hit \$170 a share.

Companies such as Exide are representative of the great silent majority, so to speak, of small-cap stocks. They are exciting in a way that has not caught on with investors generally. In the year ahead, that's the smartest way of catching on to the small-cap rally. The pitfalls in small caps, such as frothy IPOs, are surely out there. But so long as IPO-style madness remains restricted to the new issues, small-cap stocks will avoid a nervous breakdown.

By Gary Weiss in New York

ACTION

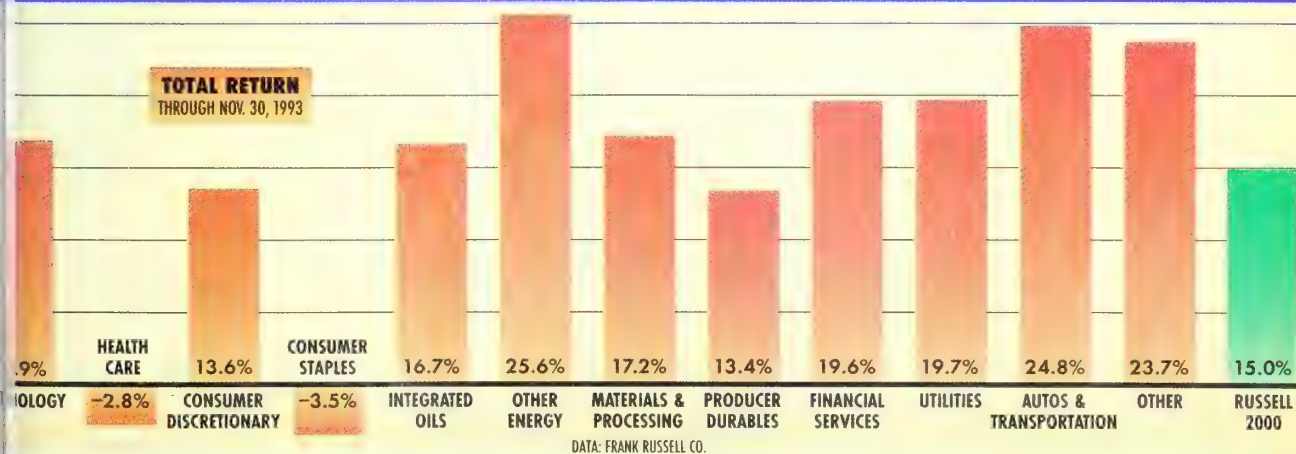
Small regional banks receive notoriously little analyst coverage, making them a ripe field for savvy investors

strong companies with stellar growth prospects. Likewise, he is buying shares in Xyplex Inc., a computer-networking company with a cash-rich balance sheet that is selling at only 13 times recent earnings. Evnin has taken profits in such hot stocks as Grand Casinos Inc. and Acclaim Entertainment Inc., which are now selling at price-earnings ratios of 30 and 35, respectively.

Stocks such as Xyplex represent the low-priced opportunities in the small-cap market. The polar opposite of the value stocks are those in the often-frothy IPO market, many of which are what veteran small-cap manager Richard L. Thorsell scornfully refers to as "concept stocks"—as in the "concept that [recent IPO] Boston Chicken will grow to a million outlets."

STRONG AND SILENT. Thorsell, who runs \$400 million worth of portfolios at Thorsell, Parker Partners in Westport, Conn., finds far more appeal among low-visibility stocks such as regional banks. They are, he notes, frequently acquisition targets—usually at twice book value—and can commonly be bought at 1½ to 1½ times book value. But you have to scour the countryside to find out about well-priced regional banks such as De-

WHERE THE SMALL CAPS ARE BOOMING—AND FALTERING



DATA: FRANK RUSSELL CO.

TOP CHART: RYNS; BOTTOM CHART: ERIC HOFFMANN/BW

WHY TAKEOVER PROS ARE TAKING HEART

Recovery means 1994 should be a bright year for buyouts—but not those financed with junk bond

Make way for the next takeover gravy train. Yes, buyouts are back, and 1994 promises to be a bright year. Mellon Bank Corp.'s agreement to buy Dreyfus Corp. for \$1.7 billion was the most recent deal in a long series of mergers and acquisitions announced in 1993. But junk-bond-financed deals are out: Stock swaps are more the style, with just a bit of cash thrown in.

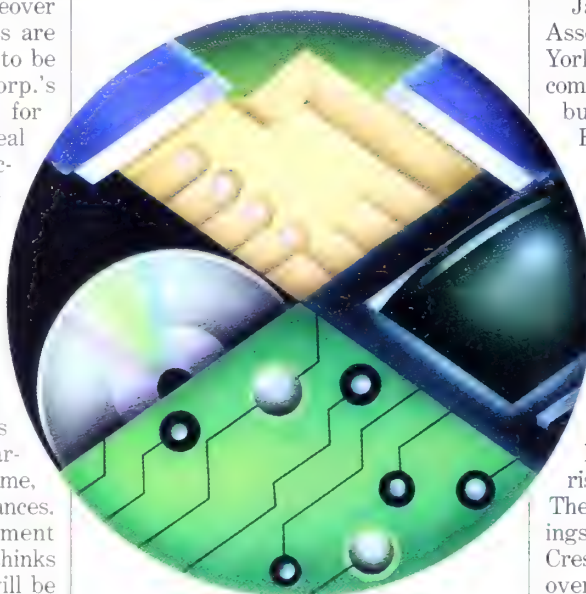
And that's just super for the takeover pros, who think good money can still be made no matter how a merger or takeover is done. Buyout analysts have been scanning the screens for companies they believe could be alluring targets in the new assets-for-equity game, which is premised on strategic alliances.

E. Michael Metz, chief investment strategist at Oppenheimer & Co., thinks health care and pharmaceuticals will be at the core of the new wave of such alliances, in response to the Clinton health-reform package. Major drug companies will do more merging, he says, as will smaller operators, including health-maintenance organizations and hospital-management companies.

Among the chief targets Metz sees: Upjohn Co., which he thinks heads the shopping lists of Hoffman-La Roche, Hoechst, and Glaxo Holdings; Marion Merrell Dow; and Syntex, which has signed a marketing agreement with Procter & Gamble Co. for some of Syntex' products that are coming off patent. Metz notes that the Syntex pact with P&G is the first of its kind and could lead to a close link between the companies, which could include a buyout of Syntex.

DISCONTENTED COW. In the food industry, Metz says one company that seems to be waiting to be acquired is Borden Inc., whose stock slumped as low as 14 earlier in the year, down from 30.

He also thinks the financial sector will have some companies up for grabs: First Chicago Corp. and Rochester Community Savings Bank. First Chicago stock is trading at around its book value of 40, while most banks of its kind trade at 1½ to 2 times book. With its diverse opera-



tions in institutional, credit-card, and retail banking, First Chicago could be very attractive to the likes of acquisitive Bank of New York, says Metz. On the other hand, Rochester Community had been the object of a buyout bid, which it eventually scuttled. Metz says he won't be surprised if the company sells itself at 25 vs. its current price of 15.

LIKELY MERGER TARGETS

Stock	Price (Dec. 13)	Takeover value
ALL AMERICAN COMMUNICATIONS	8¾	18
BORDEN	18¼	30
CRESTMONT FINANCIAL	19¼	30
FIRST CHICAGO	41½	60
MARION MERRELL DOW	18½	30
NORTH FORK BANCORP	11½	20
ROCHESTER COMMUNITY	15½	25
SYNTEX	16	35
UPJOHN	30	45
WMS INDUSTRIES	28½	45

DATA: SURVEY OF MONEY MANAGERS AND ANALYSTS

James Awad, president of Awad Associates Asset Management in New York, expects some relatively unknown companies in the financial sector to draw buyout attention. His picks: North Fork Bancorp and Crestmont Financial Corp.

North Fork, whose stock trades on the Big Board at 11, is a bank holding company that serves affluent neighborhoods on Long Island, N.Y. New management, says Awad, has turned the company around. In a buyout, North Fork could be worth twice its book value and should attract a \$25-a-share bid, he says. Crestmont Financial shares have been on the rise, leaping to 18, up from 10 in June. The company has been beefing up earnings and sprucing up the balance sheet. Crestmont should be worth 30 in a takeover, he estimates.

UPBEAT MUSIC. Awad has one takeover candidate in the entertainment industry: All American Communications Inc., a producer and distributor of recorded music and made-for-television movies. He thinks All American could be an attractive addition to a major entertainment company. Trading at \$8 a share, All American's buyout value is \$16, says Awad.

The entertainment field, says investment adviser Charles LaLoggia, will be a beehive of takeover activity, particularly for companies associated with gaming. His top choice: WMS Industries Inc., which controls some 80% of the world market for coin-operated pinball machines. WMS also owns major stakes in three hotel-casinos in Puerto Rico. Of more significance, says LaLoggia, is the nearly 25% stake in the company held by Sumner M. Redstone, chairman and majority shareholder of Viacom Inc. Redstone recently obtained clearance from the Federal Trade Commission to raise his stake to more than 25%.

The bottom line, according to takeover pros, is that the market seems fertile ground again for undervalued assets. The revived interest in mergers provides the evidence.

By Gene G. Marcial in New York

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Inv. Obj.	NAV	Offer Price	NAV Chg.	Inv. Obj.	NAV	Offer Price	NAV Chg.
Benham				Founders			
GvSA WBD	10.57	+0.01	+0.01	GvSA WBD	10.57	+0.01	+0.01
TXET MST	13.45	-4.30	-4.30	HREG BST	5.00	-4.30	-4.30
FXNY CLM	2.38	+0.54	+0.54	TXET MPL	13.45	+0.61	+0.61
MoRo MJL	1.13	+3.17	+3.17	FXNY CLM	2.38	+0.54	+0.54
Dreyfus				Janus			
GvSA WBD	10.57	+0.01	+0.01	GvSA WBD	10.57	+0.01	+0.01
HREG BST	5.00	-4.30	-4.30	HREG BST	5.00	-4.30	-4.30
TXET MPL	13.45	+0.61	+0.61	TXET MPL	13.45	+0.61	+0.61
FXNY CLM	2.38	+0.54	+0.54	FXNY CLM	2.38	+0.54	+0.54
MoRo MJL	1.13	+3.17	+3.17	MoRo MJL	1.13	+3.17	+3.17
Evergreen				Heuberg & Berman			
GvSA WBD	10.57	+0.01	+0.01	GvSA WBD	10.57	+0.01	+0.01
TXET MST	13.45	-4.30	-4.30	HREG BST	5.00	-4.30	-4.30
FXNY CLM	2.38	+0.54	+0.54	TXET MPL	13.45	+0.61	+0.61
MoRo MJL	1.13	+3.17	+3.17	FXNY CLM	2.38	+0.54	+0.54
Fidelity Investments				SteinRoe			
GvSA WBD	10.57	+0.01	+0.01	GvSA WBD	10.57	+0.01	+0.01
HREG BST	5.00	-4.30	-4.30	HREG BST	5.00	-4.30	-4.30
TXET MPL	13.45	+0.61	+0.61	TXET MPL	13.45	+0.61	+0.61
FXNY CLM	2.38	+0.54	+0.54	FXNY CLM	2.38	+0.54	+0.54
MoRo MJL	1.13	+3.17	+3.17	MoRo MJL	1.13	+3.17	+3.17
Strong				Strong			
GvSA WBD	10.57	+0.01	+0.01	GvSA WBD	10.57	+0.01	+0.01
HREG BST	5.00	-4.30	-4.30	HREG BST	5.00	-4.30	-4.30
TXET MPL	13.45	+0.61	+0.61	TXET MPL	13.45	+0.61	+0.61
FXNY CLM	2.38	+0.54	+0.54	FXNY CLM	2.38	+0.54	+0.54
MoRo MJL	1.13	+3.17	+3.17	MoRo MJL	1.13	+3.17	+3.17
TXET MPL	1.13	+0.54	+0.61	TXET MPL	1.13	+0.54	+0.61

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BY GENE G. MARCIAL

THIS MAVERICK IS BULLISH ON THREE UNDERDOGS

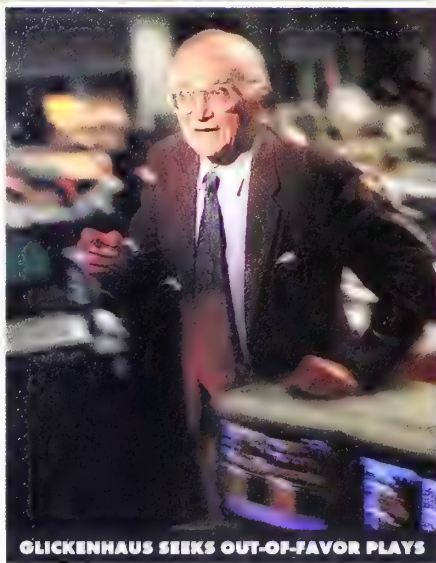
It was a rather bold call when maverick money manager Seth Glickenhau forecast in April, 1988, that the Dow Jones industrial average, then at 2100, would jump more than 40%, to 3000, by mid-1989. Glickenhau's timing was off a bit—it crossed the 3000 mark in July, 1990. He has since stayed bullish. The 79-year-old owner and senior partner of Glickenhau & Co., a New York investment-management firm, is once again predicting a sprint by the Dow, from its current level of 3740 to 5,000 by 1995.

Glickenhau makes a lot of money not in predicting the Dow, but in picking stocks. Currently managing \$2.1 billion, he has achieved an impressive yearly return of 26.5% over the past three years vs. an 18.1% gain by the Standard & Poor's 500-stock index.

Basically a value investor, Glickenhau seeks out-of-favor outfits—stocks temporarily rejected by the Street whose dynamics are bound to get recognized soon. Glickenhau's top picks: Countrywide Credit Industries, which originates, buys, and sells loans for single-family homes; Global Marine, an offshore drilling contractor that emerged from Chapter 11 in 1989; and LTV, another Chapter 11 graduate that exited bankruptcy in June.

GUNG-HO. Analysts are down on Countrywide because of fears that interest rates may be heading higher. But Glickenhau remains adamantly bullish. "We expect Countrywide to stay on top of all financial companies in the dollar amount of home mortgages it buys and sells," he says. In the first nine months of 1993, Countrywide bought and sold \$39 billion, vs. \$27 billion for all of 1992. "We expect the company to service \$250 billion of mortgages in the next five years," he says. "So we see the stock hitting 75 in three years." It's now at 26.

He's as gung-ho about Global Marine, which operates a fleet of 25 mobile offshore drilling rigs, mostly in the Gulf of Mexico. The surplus of oil rigs of late has dwindled, with demand again on the rise and no new rigs being built. The company has slashed debt, and leasing rates, which had been



GLICKENHAUS SEEKS OUT-OF-FAVOR PLAYS

declining, are now rising. Glickenhau sees earnings of 20¢ and cash flow of 50¢ a share in 1994 and profits of 60¢ and cash flow of 90¢ in 1995. The stock, now at 3%, will hit 9 in two years, he predicts.

LTV will benefit from the improving price of steel, says Glickenhau, who describes the company as a classic economic-recovery play. He thinks it will make \$1 to \$1.25 a share in 1994 and \$3.50 to \$4 to 1995. He sees the stock, now at 15, climbing to 25 in a year.

A SLICK PLAY IN ENERGY

With oil prices slumping, not many investors dare bet heavily on the poor-performing energy stocks. But despite the gloom, some money runners have been snapping up shares of Anadarko Petroleum, one of the nation's major independent oil and gas producers. What's to gush about Anadarko?

Trading at 41—down from 58 in early October—Anadarko "is very cheap based on its exploration work in the Gulf [of Mexico] and elsewhere," says a New York fund manager. The company, he adds, is in the midst of a "very aggressive and successful exploration program in the gulf, onshore Texas, and Algeria." Anadarko recently announced a major discovery with Phillips Petroleum in the gulf. He figures that the find contains 150 million to 300 million barrels of oil, worth \$5 to \$7 per Anadarko share. Phillips and Anadarko have eight other areas with similar potential where they will drill in the next two years, says this fund manager.

Even more exciting, he asserts, is well in the gulf called East Camero Parish, which is controlled by Anadarko. Results of that well should be announced in the next three weeks. "A indications point to a large oil and gas find," he insists. If so, the well could produce \$750 million to \$1.5 billion worth of oil, or \$15 to \$25 a share, he says. The fund manager expects Anadarko to announce results from two of its wells in Algeria by February. He sees Anadarko's stock doubling in the next 12 months.

Ron Barone, an analyst at Kidder Peabody, is also high on Anadarko. "has several potential highly prolific drilling prospects," says Barone, that could bolster its reserves, net asset value—and hence stock price—in 12 to 15 months.

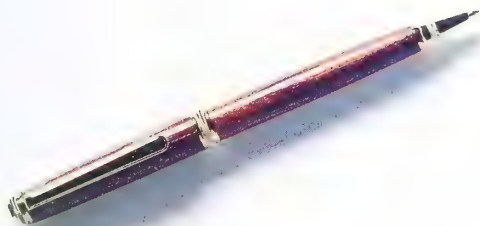
SELLING OFF THE PAPERWEIGHTS?

Paper and forest-product stocks are finally finding their way out of the woods, but they're not in the clear yet. Red ink continues to hamper the industry in 1993, and the outlook for 1994 remains iffy. But with the resurgence of mergers, "certain paper and forest-products stock may just be the right thing to own at this point," says Kazi Hasan, a veteran paper and forest-products analyst.

Many of these companies will have to sell entire divisions, maintains Hasan, a senior vice-president at R.D. Dirks Research. "In most cases, the only way out for these companies is to spin off some of their assets to underscore the market's undervaluation of their true worth," he says. Despite strong cash flow, most forest-products companies are steeped in heavy debt, he notes. And they have nothing much to show by way of profits. So Hasan has been buying into Champion International and Boise Cascade.

"Asset-rich Champion and Boise no have their backs to the wall, and like or not, spinoffs are the quick medicine for what's ailing them," Hasan says. Champion, whose stock is at 32, worth 60 based on its pulp, newsprint and printing-paper units. Boise, now at 22, is worth twice its selling price.

Hasan sees earnings of 50¢ and cash flow of \$7.50 a share for Boise in 1994 vs. a \$3 loss in 1993. He also expects Champion to post a 1993 loss of \$1 but he sees 1994 earnings of \$1.20 and cash flow of \$6.50.



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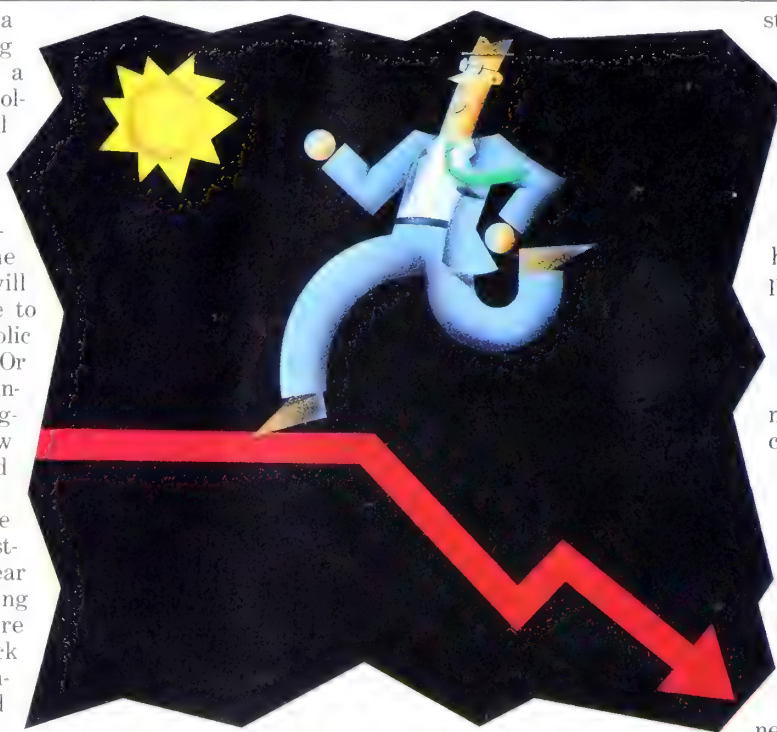
The longer the bulls run, the harder it is to find a solid stock at a fair price

Whether it is a hungry young stockbroker, a colleague at the water cooler, or a friend at a cocktail party, apparently well-meaning people are going to urge that you make some abysmal investment choices in the coming year. They will tempt you with a chance to get in on the initial public offering of a coffee stock. Or maybe a new real estate investment trust that manages shopping malls. How about a new closed-end municipal bond fund?

How about none of the above? A big part of investing successfully next year will come from knowing what not to buy. If you're easily tempted by stock tips, you had best disconnect your phone lines and plug your ears in 1994.

Wall Street will continue to bring out new issues, some of questionable quality, to meet the apparently insatiable public demand. As the bull market trudges on, it will become more and more difficult to find a quality stock that sells at a reasonable price. "You've always got to be more careful when you've had a bull market for a while than when you're coming out of a bear market," says Fred R. Kobrick, manager of MetLife-State Street Capital Appreciation Fund.

STAR GAZING. Like it or not, one won't be able to pick the losers of '94 simply by zeroing in on those specific sectors or industries that are out of favor at the moment. "At various times, things will get bombed out, then they get cheap," says Nola M. Falcone, portfolio manager of the Evergreen Total Return Fund, an equity-income fund. Consider revisiting companies you currently shun later in the year to see if the stock's valuations have improved, Falcone says, "even ones



that are at silly price-to-earnings ratios right now."

But while there are no hard-and-fast rules, there are some general principles you should keep in mind when evaluating any investment next year.

First of all, don't be dazzled by this year's stars. "We would avoid the hot

stocks of '93," says Douglas K. Rayborn, chairman of Rayborn & Co., an investment management firm in Delray Beach, Fla. "That is, computer and telephone-related issues that have run up sharply and are selling at high P-ES with lots of expectations."

Kobrick warns of a continuing telecommunication "mania" and says it may be years before interactive media plays, such as Qualcomm and 3DO, which are selling at P-ES of 119 and 116, respectively, can generate earnings to prove they are worth the price.

With new technology, sometimes is prudent to invest ahead of earnings, he says, but multimedia is not a new technology. It's old technology in a new package.

PLAYING CHICKEN. But the hottest—most pricey—stars of 1993 were stock issues which can now be considered too hot to handle. "You would think everyone who could go public reasonably has already done so," says John H. Laporte, manager of T. Rowe Price New Horizons New America Growth funds, but he says there is another group of new issues waiting at the door. "There are far too many companies that are really at the development stage, trying to go public and actually succeeding."

Professionals are scoffing at pre-runups, such as the one Boston Chicken experienced on its first day of trading, when it rose from 2 to 48. It was selling at 37% a share on Dec. 13. "When you've got companies with zero earnings doubling in price, I'm concerned," says Patricia Weingarten, chairman of the Mutual Group of mutual funds.

Evergreen's Falcone advises investors to avoid any new issue with multiples of 30 or 40. Snapple, Star

STOCKS TO AVOID

Stock	Price*	P-E ratio
BOSTON CHICKEN	37½	(def)
SNAPPLE	23	61
STARBUCKS	22½	75
GENTEX	30¾	63
QUALCOMM	54½	119
3DO	24½	116
U. S. SURGICAL	22½	38
C. R. BARD	24	30
MARK CENTERS TRUST	15¾	21
CROWN AMERICAN REALTY TRUST	15	42

*As of Dec. 13.

DATA: SURVEY OF ANALYSTS



HELPING BOSTON CLEAN UP ITS HARBOR IS NO TEA PARTY.

The Boston Harbor project is one of the most ambitious environmental projects of this decade. When completed, it will include the second-largest wastewater treatment plant in the United States, capable of treating 1.3 billion gallons daily; and a 9.5-mile discharge tunnel over 24 feet in diameter bored more than 400 feet beneath the water's surface. An estimated 2.5 million people ultimately will be served by this facility.

ICF Kaiser, the construction manager for this massive effort, is facing tough challenges — time and space — to reclaim the harbor. The construction schedule is mandated by a federal court order. And the construction site is a scant 180 acres on Deer Island, with limited access.

Coordination is key. ICF Kaiser has centralized all services and supplies on the island, from concrete supply to

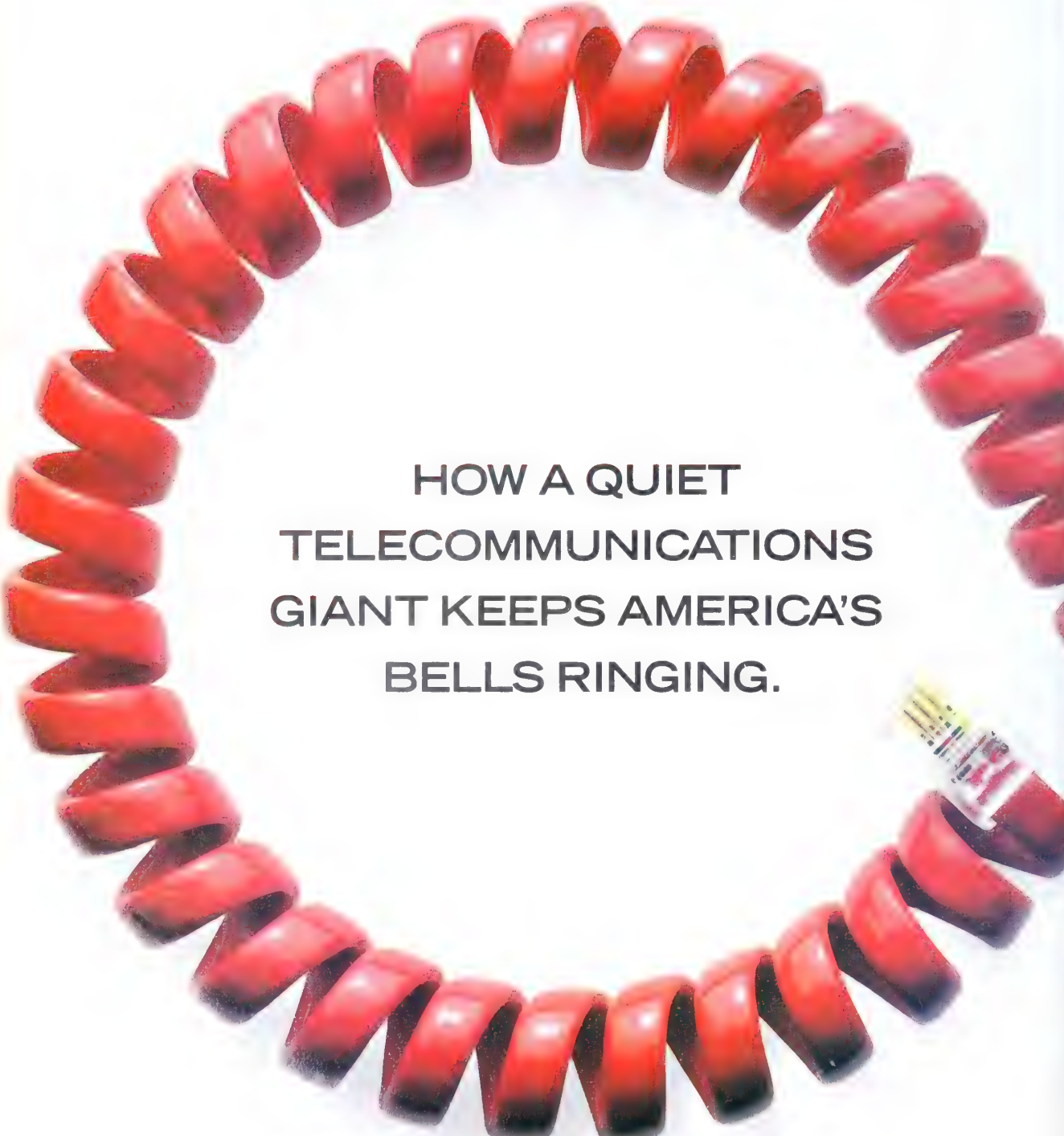
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bucks, and Gentex all have price-earnings ratios over 60. Sunglass Hut, which operates kiosks selling expensive eyewear, has good earnings and good sales, she says, "but if you stumble one quarter, you're down the tubes on the stock. That's just something I wouldn't dream of doing to my investors." However, you can get in on the deal early, you may stand to take a quick profit.

Aside from stock IPOs, new REITs and closed-end fund offerings also are being churned out for an overly eager investing public. They all fall prey to the same major disadvantage: They are promoted by underwriters who profit handsomely from the up-front fees, regardless of how they perform long-term.

MALL MADNESS. Bundles of real estate properties are being traded at huge premiums to the value of their underlying properties. Investors typically buy them for juicy yields, but analysts question the ability of some managers to support the projected cash flows. Investor demand for new REITs seems to be slowing, as the public shies away from the questionable shopping-center REITs that have been offered lately. Analysts suggest avoiding Mark Centers Trust and Crown American Realty Trust.

Buying on the initial offering of a closed-end fund is never advised. The beauty of these investment vehicles is that you can usually buy shares at a discount to the value of the securities in the portfolio. To buy a new fund at market value plus a sales charge is almost never worth it. But it's just plain dumb to buy a new issue of a general bond fund when you can buy one just like it at a discount for a higher yield.

But for most sectors of the market, it's a lot tougher to judge whether you ought to be in or out in 1994. Health care is a particularly tricky area. You may think these outfits already took their lumps when President Clinton was elected and the health-care

package was announced, but not all analysts agree. Kobrick, for one, warns that more fallout is on the way. "It's an area for the general public to avoid unless they really have a method to pick the winners," he says. Stay away from hospital-supply and medical-devices companies, which will face volume cutbacks and pricing pressures, such as U.S. Surgical and C. R. Bard, Kobrick says.

ACTION

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price ratio of
any new issue
you like.
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than 30
or 40—
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Contrary to much of the thinking on 11 Street, Joseph V. Battipaglia, chief investment strategist at Gruntal & Co., says some personal-computer makers, such as Dell and Zenith, should be avoided. "They are basically just assemblers with no value added," he says. Battipaglia also recommends that investors steer clear of natural resources, including chemical and metals companies: "We believe any industrial demand will be more than offset by cash-starved producers looking to clear inventories at any price."

ACTION
Don't buy a dividend fund the initial time—there's probably one out there like it selling at a discount

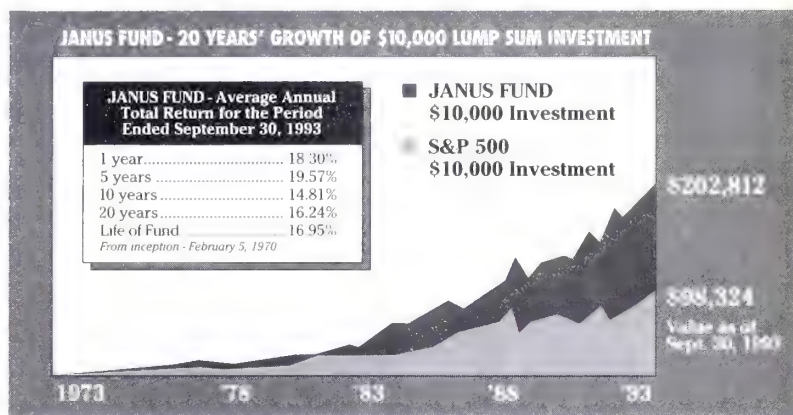
To really judge a stock a loser, you have to look at the "innards" of the company, says Kobrick. This means doing some research—or trusting your broker. Falcone searches for stocks with high current income that can provide a cushion in a downturn. However, Falcone says, an unusually high dividend can be an indication of weakness at a company. If the company's earnings are not covering the dividend, it may be in a period of slow growth. "The quality of earnings is a real issue," says Peggy Woodford Forbes, president of Woodford Capital Management Inc., based in New York. "We've seen a lot of growth happen because of restructuring and downsizing. Now we have to see whether that leanness and efficiency will pay off."

IN MOTION. Also look sharply at recent price movements of any stock. There is nothing wrong with "momentum" investing, or picking the stocks that are rising the fastest in price, on the theory that "a body in motion tends to stay in motion," says Buck Newsome, managing director of the Cambridge Financial Group, an investment advisory firm in Columbus, Ohio, that depends on this strategy. But these stocks tend to fall as fast as they rise, he says. If a stock has had a long price runup and momentum is starting to stall, you had better invest elsewhere. You might end up investing in a downward-momentum stock.

It's likely that the new year will include more derivatives of mortgage-backed securities and strange new limited partnerships. The rule here is: Avoid what you don't understand. And if you're not going to close your ears to stock tips in 1994, do enough homework to make sure you don't get misled.

By Amey Stone in New York

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(Graph courtesy of Micropal)

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BELLS ARE RINGING— ALL OVER THE WORLD

Telecoms are rewiring the planet—and that spells opportunity for investors



"The telecommunications revolution promises to transform world economies as the automobile did 100 years ago and the steam engine 200 years ago."

—Donald H. Straszheim, Merrill Lynch & Co. chief economist, Dec. 6, 1993

As anyone who just got a fiber-optic line hooked up in Bangkok, Berlin, or Mexico City will tell you, a telecommunications revolution really is under way. This revolution is doing a lot more than making communications easier for businesses and consumers. It's also opening up some of the most intriguing global investment opportunities in years.

Forget multimedia and 500-channel cable TV for the moment. We're talking basic telephone calling. Indeed, in a time of low global interest rates and falling technology costs, everyone from giant Teléfonos de México and British

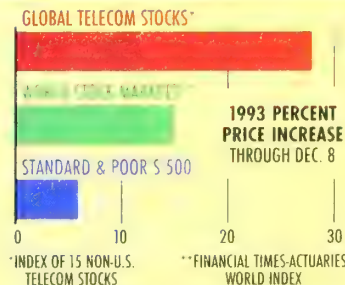
Telecom PLC to Russia's tiny Petersburg Long Distance (page 97) is scrambling to update service and bring new telephones to millions of emerging-market consumers. For investors, these efforts are likely to yield rising dividends and annual per-share earnings growth rates of 15% to 20% or more.

BARGAINS. Such growth predictions help explain why TelecomAsia, a fledgling carrier with a franchise to build 2 million phone lines in Bangkok, rocketed to 83 times earnings as soon as its recent initial share offering hit the Thai stock market. But you don't have to pay anywhere near that

to get into the phone game. For even TelecomAsia, there are plenty of well-managed companies offering moderate price-earnings ratios and high growth potential. Take Italy's phone monopoly STET, which offers "huge unachieved values," says Salomon Brothers Inc. analyst Richard Ryder. He thinks STET may be ready to jump from its current \$2.25 a share to \$3.80 in coming months.

Emerging economies also offer bargains. Consider Telmex. Through much of 1993, it was dogged by an economic slowdown, but over the future of the North American Free Trade

TELECOM STOCKS OUTRUN WORLD MARKETS



reement, and government pressure hold down local rates. Yet with NAFTA passed and Mexico's economy likely benefit broadly, analysts figure that Mexico has only now begun to live up to potential.

Mexico has just 8 phone lines for every 100 residents, compared with 55 per line in the U.S. But it's adding new ones at a rate of 12% per year—823,000 in 1993 alone. Revenues generated by that expansion should keep money rolling in the rest of the decade. In fact, Lehman Brothers Inc. Senior Vice-President Jeanne G. Bye thinks Telmex is already so flush with cash that it will split its dividend 60% in 1994, after paying it 88%, to 98¢ a share, in 1993. "You cannot go wrong with a company that sells for 10 times earnings and has a growth of 15% a year," agrees Oscar A. Castro, portfolio manager of the Montgomery Global Communications Fund. "It's one of the cheapest telecom stocks in the world."

TANGO. Much the same can be said of other such Latin offerings. Bye, for example, also likes Telecom Argentina, one of the country's former state monopolies. Now partly owned by two European phone giants, France Télécom and Italy's STET, it has been shedding debt while expanding the number of its lines by 10% a year. As a result, Bye figures, earnings should be up some 20% in 1994. She and others are also enthusiastic about Brazil. Sonia Villalobos of São Paulo's Banco de Investimentos Garantia, for example, is high on her city's local provider, Telesp. Among Brazil's eight publicly traded phone companies, she says, "it has the most potential by far." Having Brazil's commercial hub, which generates 40% of the country's gross domestic product, Telesp is retiring high debt and recently entered the cellular-phone business. As a result, Villalobos expects its profits to jump 40% in 1994.

Latin America is hardly the only region offering phone bargains. Rob Collier, head of research at Bangkok's First Securities, recommends United Communications Industry (UCOM). A Thai cellular-phone operator, UCOM's shares are a price of 37, half that of its main competitor, Advanced Information Services. But others favor more mainstream choices, including Hong Kong Telecommunications. Its American deposit receipts (ADRs) have slipped 10% in recent weeks, to 60, amid concerns about the entry of several local competitors in 1995. But HKT is being allowed to keep its lucrative monopoly on calls to the U.S. and other destinations for 11 more years. It also will be a prime contender to wire China's phone system. "They will dominate the area well past the year 2000," argues Salomon's Ryder.

Is Hong Kong still too exotic for your taste? Try Britain's Cable & Wireless PLC. Another popular ADR issue, it owns 57.5% of Hong Kong Telecom and is seeing rapid growth both in Britain and the Caribbean.

Or forget about phone companies altogether. Instead, buy shares of companies that supply telecom equipment and software. That's what Udi Gelbard, director of research at Oscar Gruss & Sons Inc. in Tel Aviv, is doing. He recommends Comverse Technology, a maker of data-compression systems developed for the Israeli intelligence service. Denver money manager Bruce B. Bee, meanwhile, is accumulating shares in Benefon, a Finnish maker of cellular-phone gear whose sales are thriving in

Asia, Eastern Europe, and Turkey. And Theresa M. Murphy, a managing director at Smith Barney Shearson Inc., is high on Canada's Newbridge Networks Corp., which makes digital switches that let corporations operate voice and data networks over long distances. Murphy predicts that Newbridge's earnings will more than double in 1994, to \$1.43 a share.

Looking for more choices? Denmark, the Netherlands, and Germany plan big phone privatizations. And more Latin offerings are on the way. In the global telecom market, it's clear there won't be any shortage of picks for a long time.

By William Glasgall in New York, with Ken Stier in Bangkok and Neal Sandler in Jerusalem

RUSSIA

FOREIGNERS ARE FLOCKING TO GET TO THESE PHONES

Rupert A. Galliers-Pratt, chairman of Petersburg Long Distance Inc. (PLD), recalls the frustration of trying to phone home from his hotel room during a visit to St. Petersburg in May, 1992. A few months before, Galliers-Pratt had signed a deal to help modernize the Russian city's 1950s-era phone grid. But he couldn't get in touch with colleagues abroad to discuss the project. Phoning out "was almost impossible,"

dubbed PeterStar, 100,000 new lines.

Until 1992, Ottawa-based PLD was known as VenTech Healthcare Corp., and this is its first phone job. But its heady growth projections have gone down well on Wall Street. PLD's stock, which trades over the counter in the U.S., has nearly doubled since summer, to \$12. No wonder: Given the eight-year waiting list for regular lines, PeterStar is having no trouble signing up foreign customers—who must pay dollars. British Petroleum, McKinsey & Co., and the Chicago law firm of Baker & McKenzie already are on the network. "We can call abroad with no problem," says Baker's local manager, Arthur George. "And because they have special equipment, quality within the country is better."

FAR TOO FAST? Some shareholders question whether PLD, with revenues in the first three quarters of just \$50 million, may be growing too rapidly. "Demand has exceeded anything they were talking about," says Grace Pineda, portfolio manager of the Merrill Lynch Developing Capital Markets Fund. "Can they handle it?" Galliers-Pratt insists they can. Indeed, he recently signed a cellular-phone deal with the government of oil-rich Kazakhstan, and now he is wondering whether PeterStar's system someday will carry cable television. Can home shopping channels be far behind?

By Patricia Kranz in St. Petersburg and William Glasgall in New York



ST. PETERSBURG WILL HAVE 100,000 NEW LINES

he recalls. "The network was full."

That's no longer true. In the past year, PLD has poured \$26 million into a joint venture with St. Petersburg's phone utility, snaking fiber-optic cables beneath streets and installing digital switches from Britain's GEC-Plessey Telecommunications and American Telephone & Telegraph Co. The Canadian company now expects to spend an additional \$20 million over the next 18 months, giving the joint venture,

PASSPORTS TO A GLOBAL PORTFOLIO

The savvy, well-traveled investor can make money even where there's trouble

JAPAN



PLENTY OF PLAYS ON SICK COMPANIES

Four years after the Japanese stock market peaked, buying stocks in Tokyo is getting to look a lot like triage, the art of sorting out the goners from the wounded battlefield victims that can still be saved. And for good reason. The economy is refusing to respond to \$275 billion worth of government spending. Moreover, it's not clear whether Prime Minister Morihiro Hosokawa's coalition can come up with a big enough tax cut to persuade consumers to spend more. Most economists thus are looking for no more than a tepid recovery in 1994 after a 0.5% drop in the gross domestic product the year before. Some think the Nikkei stock average, which has already fallen 18%, to 17,300, since late October, could slide to 13,000 in coming months.

Sound bad? You bet. Analysts say stocks of steelmakers, mired in recession and global overcapacity, are going to take a pounding. So may big banks, burdened with billions in bad loans. But don't give up on Tokyo entirely. As Corporate Japan tightens its belt, a welter of restructuring plays are coming to the fore. Nimble companies boasting superi-

or technology, innovative marketing, and no-nonsense managers bent on slashing costs could rebound quickly when demand eventually awakens.

That's what Ichizo Yamauchi is betting on. A director at Kokusai Investment Trust Management Co., Yamauchi now has \$900 million in five funds targeting restructuring plays. Among his favorites: Rohm Co., a supplier of electronic components. Over the past year, Rohm has moved production abroad and honed its marketing strategy, cutting out discounting and abandoning marginal accounts. The company's research arm, meanwhile, is now focusing on tailoring products to such big customers as Sony, Hitachi, and NEC. As a result, says Yamauchi, Rohm has the potential to rise as high as \$37, from \$25 now. Yamauchi also likes Nippon Yusen, Japan's oldest shipping company, which has been quicker than other shippers to take on cheaper foreign sailors and shift paperwork offshore. In addition, Nippon Yusen has built a string of warehouses in various Asian countries with fast-growing economies while also expanding in Antwerp, Milan, and Düsseldorf.

UNDER REPAIR. Even some blue chips offer restructuring appeal. To be sure, they may get hit hard if the Nikkei plunges again. But Susumu Kato, chief economist at CS First Boston (Japan) Ltd., counsels against panicking. He still admires the long-term growth potential of big electronics companies such as Hitachi, TDK, and Sony, which have all

trimmed capacity sharply. And automakers have some adherents. For ample, Peter Boardman, senior analyst with UBS Phillips & Drew International Ltd., thinks Mitsubishi Motors better positioned than Toyota or Honda to cope with slack demand. Mitsubishi expanded less at home during the bubble years. That has given it the resources, he says, to pursue faster-growth overseas markets with alacrity.

Consumer stocks, a traditional hawk in down markets, also offer upside potential. Kato argues that while consumers finally start to come out of their shells, they'll likely start eating out more. So he is recommending Sekisui Co., a restaurant chain that has successfully gone down-market, turning some of its Denny's-style family outlets into fast-food joints. And Yamauchi favors mass retailer Ito-Yokado Co., which could benefit if current efforts to deregulate the economy allow the company to open more stores or sell alcohol for the first time.

Investors may also be missing a boat if they ignore the fat profits some Japanese companies are earning in booming China and southern Asia. Nikko Securities Co. strategist Yuichi Matsuta, for example, suggests Murata Manufacturing Co., whose sales of capacitors and other consumer-electronics parts to Chinese manufacturers are rising swiftly.

Another of Matsushita's choices is Yaohan Japan Corp., a big supermarket group whose checkout lanes run from Brunei to Hong Kong. "Retailers

THEMES FOR DEFENSIVE INVESTING IN TOKYO

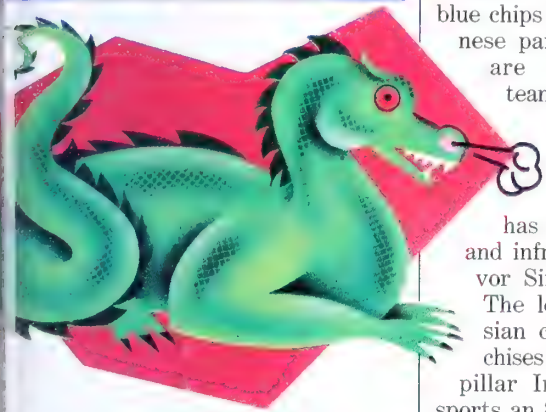
RESTRUCTURING	DEREGULATION	ASIAN GROWTH
Recent price per share	Recent price per share	Recent price per share
ROHM Cost-cutting electronics supplier \$28	ITO-YOKADO Big retailer may be allowed to open more stores \$51	MURATA Selling lots of electronics in China \$
SONY Should gain from weaker yen, U.S. recovery 48	KIKKOMAN Rising food imports will cut its expenses 7	YAOHAN Retail chain expanding from Brunei to Hong Kong

DATA: BUSINESS WEEK SURVEY OF ANALYSTS AND FUND MANAGERS

supermarkets will accelerate their move into Asia, I'm sure of that," he says. "In Japan, there's no way to grow." That may well be true. However, that doesn't mean there are no opportunities left in the Japanese market.

By Larry Holyoke in Tokyo

ASIA-PACIFIC



RIPSNOTING MARKETS FOR THE STOUT OF HEART

Across the street from the shabby hotel housing the Shanghai Stock Exchange, two dozen men have gathered to swap gossip about the latest market moves. Today, it's the "four little dragons," a group of property and electronics companies whose stock prices have been mysteriously moving up. Is a speculator trying to make a killing? Who knows? The real object seems to be to get into the stock before the next move. "I come here to watch the action," says Zhang Hui Lang, an economics professor at Shanghai University. "If I can catch this market, I can make a lot."

With Shanghai up 30% in 1993, Zhang has had ample opportunities to turn a few yuan. But he's hardly the only Pacific Rim investor making a bundle. With Merrill Lynch & Co. predicting the region will grow at a rate of 6.9% in 1994, bourses from Seoul to Sydney are posting stellar performances. And despite some warnings that the markets are overheated, few analysts are willing to urge investors to flee.

REACTIVE. Consider Hong Kong. Despite concerns over Beijing's takeover of the British colony in 1997, the Hang Seng stock index jumped 78% in 1993. The market still sports a 3% average dividend yield, a price-earnings ratio of 15 vs. 20 for the Standard & Poor's 500—and remains Asia's No. 1 window into the booming China. Indeed, with Beijing's financial bankers easing up on efforts to stabilize China's economy in check, Baring

Securities Ltd. strategist Alan Butler-Henderson predicts the Hang Seng may climb 50%, to a record 15,000, as early as mid-1994. "No market anywhere is as attractive as Hong Kong," agrees Clive Weedon of the Nomura Research Institute's local branch. "People who move out will live to regret it."

Weedon recommends Hong Kong-based blue chips that have big deals with Chinese partners. Among his top picks are Swire Pacific, which has teamed up with Chinese investors in real estate, airline maintenance, and ports; as well as financier Li Ka-shing's Cheung Kong Holdings, which has a slew of mainland property and infrastructure deals. Others favor Sime Darby Hong Kong Ltd. The local subsidiary of a Malaysian conglomerate, it owns franchises to sell BMW autos and Caterpillar Inc. tractors in China—and sports an 8% yield.

Some traders prefer to play China by tapping into the flood of new listings hitting the Shanghai and Shenzhen exchanges. Frederick K. Zhang, managing general partner of Boston's Clafin-China Partners, for example, has been buying Shanghai Phoenix Bicycle, which sells at a P/E of 14. He also likes Jinqiao Development, which is opening a vast export-processing zone across the Huangpu River from downtown Shanghai.

The choice of Chinese equities promises to widen even further in coming months. For example, Beijing Jeep, a joint venture with Chrysler Corp. which makes Cherokees in China, may seek to

float its shares on the New York Stock Exchange as early as 1994. "You want to try to get your hands on every new issue you can," says Zhang. "The market is hot." As are stocks in Thailand. Although Bangkok's equity market doubled in 1993, Rob Collins, head of research at Bangkok's First Asia Securities, notes that the country's big banks still trade at a reasonable P/E of 12. His favorite: Thai Farmers Bank, the nation's third-largest lender, which expects profits to grow 14% in 1994.

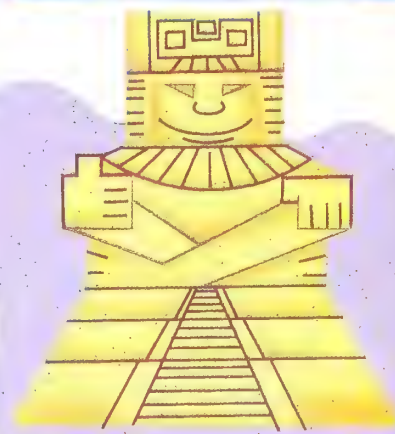
Among other markets benefiting from Asia's growth spurt is Sydney. Tax cuts, a weak Australian dollar, and an upsurge in exports to China and southern Asia are expected to produce better than 3% gross-domestic-product growth in 1994. But despite their 35% rise in 1993, "Australian stocks are still inexpensive," says Brian Sherman, chairman of Equitilink Australia, a Sydney money manager. Sherman has been stocking up

on media, engineering, and mining issues. And with cheap money sparking a housing boom, Simon Wotherspoon, a dealer with Macquarie Equities, prefers such mortgage lenders as St. George Bank.

What would it take to throw the Pacific Rim bull market into reverse? Exploding inflation in China—always a lurking concern—might do the trick. So might a rise in U.S. interest rates. But for speculators in the street and traders at their desks, such concerns at the moment seem far away indeed.

By William Glasgall in Shanghai and Pete Engardio in Hong Kong, with Stephen Hutcheon in Sydney

LATIN AMERICA



HEADING SOUTH WITHOUT GETTING BURNED

Approval of the North American Free Trade Agreement is giving Latin American stock markets a much needed lift. Since Nov. 17, when NAFTA was O.K.'d by the U.S. Congress, Baring Securities Ltd.'s Latin American equities index has gone up 5%. NAFTA's main beneficiary has been Mexico City's Bolsa de Valores, which has jumped 12% amid hopes that the country will pull out of its slump as foreign investment pours in.

But despite the euphoria over the trade deal, analysts warn against expecting Latin America's stock markets to show anything like the triple-digit returns some have recorded in recent years. With political tensions on the rise in some countries and with many Latin companies facing more restructuring if they are to prosper in open-market competition, slower growth for equities is more likely to be the order of the day.

Still, that hardly means that Latin markets are unworthy of investors' attention. Hefty investment in infrastructure will continue to buoy many companies for years. Consider Mexico. Plans to

ACTION

Hong Kong blue chips still offer value. So do European small-cap stocks and Latin consumer plays

BEYOND THE HORIZON WE CAN SAVE LIVES



THE 1964 FORD MUSTANG WITH THE 1994 FORD MUSTANG

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QUALITY IS JOB 1

privatize ports and expand highways, generating plants, and industrial parks should pump up profits at such cement, engineering, and construction companies as Cemex, Industrias Tribasa, and ICA, whose American depositary receipts are trading at 27, around 12 times earnings. Across Latin America, newly privatized telecommunications companies (page 96), such as Teléfonos de México and Chile's CTC also have years of earnings growth ahead. And many consumer stocks look promising. Salomon Brothers Inc. strategist Alfredo Villegas, for example, likes Terrabusi, an Argentine snack-food maker. "When people make more money, they eat more crackers and cookies," he says. "It's as simple as that." He also favors Brazilian brewer Brahma, which has been nearly unaffected by Brazil's 36%-a-month inflation rate.

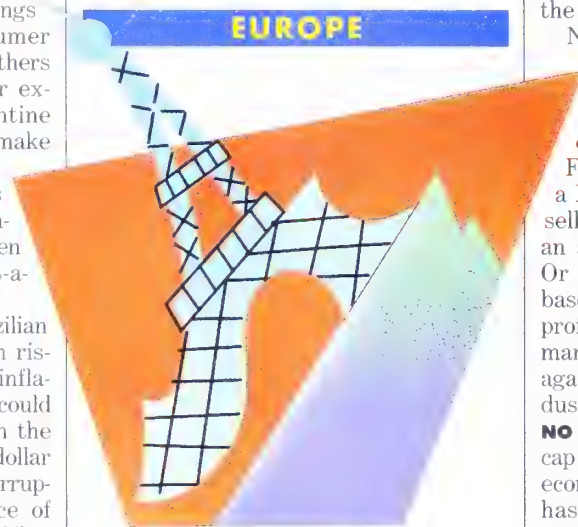
POLITICAL SETBACKS. Not every Brazilian company has coped so handily with rising prices, however. Indeed, high inflation is only one reason why Brazil could be a trap for the unwary. Although the São Paulo market was up 100% in dollar terms in 1993, a series of political-corruption scandals and the reemergence of labor leader Luis Inácio "Lula" da Silva as a presidential candidate has many business leaders shuddering.

Political tensions could threaten other markets as well. Venezuelan voters' decision to restore populist Rafael Caldera is raising fears that the pro-market reforms instituted by former President Carlos Andrés Pérez will be reversed. And in Mexico, which holds its presidential election in August, the ruling Institutional Revolutionary Party (PRI) may face its most serious challenge in 64 years. Although the PRI should still win,

opposition questioning of the party's free-market economic model could scare some traders away.

Amid such concerns, analysts say Latin investors may have to moderate their expectations for 1994. But that could still mean double-digit returns—a good sight better than many, if not most, of the world's other markets.

By Geri Smith in Mexico City



GOOD HUNTING IN BAD ECONOMIES

Europe's bourses are rallying, short-term interest rates continue to fall, and economic recovery beckons. So why are investment pros suddenly getting picky? Because even as Europe limps out of recession, corporate profits are going to remain dismal for quite a while. That could lead to some nasty surprises for investors who have seen cheaper money push up nearly every

stock in sight for two years straight. With earnings fading, many money managers advise shunning blue chip. They maintain that small-capitalization stocks—those with a market value \$750 million or less—will best weather Europe's earnings woes. Even the companies have been hit by recession. But with European markets up about 20% in dollar terms in 1993, this is still the area where bargains can be found.

Not only do the small caps offer the best chance of a profit rebound as the economy recovers, but they also sell at price-earnings ratios that can be half those of the blue chips. For example, Nicolas Schlumberger, a French maker of weaving equipment, sells for about 14 times earnings, versus an average of 26 for the Paris bourse. Or take Gunther & Sohn, a Leipzig-based homebuilder that is making big profits putting up homes in eastern Germany. It's selling at 10 times earnings, against about 25 for the construction industry average.

NO FEAR. Some of Europe's best small-cap companies can be found in the worst economies. That's what Claire Griffiths has discovered. The manager of Invesco's European Small Companies fund in London, she tracks 80 companies spread across 13 countries. Although 43% of the fund's assets are in recession-wracked Germany and France, Griffiths has parlayed investments in housing construction and hospitals to a 42% gain over the past 12 months.

Buoyant as they are, small-cap stocks aren't the only way the pros are navigating Europe's troubled waters. European leaders may bemoan the region's flagging competitiveness, but David D'Neilly, manager of Skyline Europe Portfolio, a Chicago-based mutual fund, targets "Euro-global" companies that have used the discipline of Europe's year-long shift production to cheaper locales. D'Neilly likes Britain's Cable & Wireless PLC for its big stake in Hong Kong Telecom. He's also keen on France's Lyonnais des Eaux and Générale des Eaux, as much for global diversification as for their waterworks expertise.

Even blue chips still have their adherents. Wolfhard Graetz, chief investment officer at Bank Vontobel, is warming to a Dutch electronics giant Philips and France's Compagnie Financière de Saint-Etienne. He figures both have "done the right thing" in restructuring to earn their place as long-term recovery plays. It's after these two, the list trails off. In many European stock-pickers, the guiding philosophy right now is: To earn big, think small.

By Bill Javetski in Paris

STOCK PICKS FOR A GLOBAL RECOVERY

PACIFIC BIM

Recent price per share

HONG KONG TELECOM	\$60*
HONG KONG	
The colony's phone giant	
SWIRE PACIFIC	8
HONG KONG	
Wheeling and dealing in China	
THAI FARMERS	4
THAILAND	
* Earnings could jump 15%	
MYINT LTRP.	54*
Focusing on Asia	

LATIN AMERICA

Recent price per share

TELEFONOS DE MEXICO	\$62*
MEXICO	
Profits and dividends rising	
CTC	88*
CHILE	
Southern telecom star	
CEMEX	26
MEXICO	
Rebuilding Mexico Inc.	
TERRABUSI	4
ARGENTINA	
Its snacks are hot	

EUROPE

Recent price per share

CABLE & WIRELESS	\$22*
BRITAIN	
Zeroing in on Asia	
CARLTON COMMUNICATIONS	27*
BRITAIN	
Eyeing British TV licenses	
PHILIPS	20*
NETHERLANDS	
Restructuring bearing fruit	
ESPIRITO SANTO	35*
LUXEMBOURG	
Bankers in Portugal	

DATA: BUSINESS WEEK SURVEY OF ANALYSTS AND FUND MANAGERS

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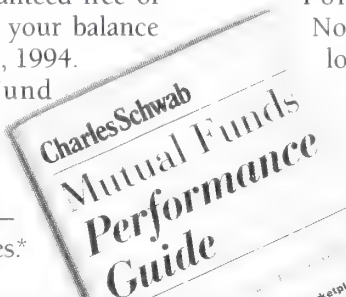


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WELCOME TO THE \$100,000 CHALLENGE

BUSINESS WEEK's pros beat the market hands down in 1993. Can this year's gang ride the bull?

How often does someone hand you \$100,000 and let you go spend it all in one place—say, the stock market? That, in effect, is what BUSINESS WEEK does once a year when we ask a group of investment professionals to create a portfolio for the coming year by picking their 10 favorite stocks.

The four pros who participated last year all made money, though some significantly more than others. While the Standard & Poor's 500-stock index was up 7.7% for the 12 months ending on Dec. 13, three of the pros beat it handily.

This year's winner hails far from Wall Street. Mark W. Millsap of Meridian Management Co. is from President Bill Clinton's hometown, Little Rock. Millsap assembled a phantom portfolio of industrial and gold stocks that turned his \$100,000 into \$141,454, almost a 41.5% gain. That performance was largely a result of five blockbuster stocks that each rose more than 50%. His only loser: Occidental Petroleum, down 4.1%. The runner-up was British investor John Carrington, managing director of Carrington & Co. in London. His portfolio was up 18.6%. Carrington's big winner was Finland's Nokia, which teamed up with watchmaker Swatch to design cellular phones. Nokia's gain: 169%.

Coming in third was S&P's special-situations expert Robert S. Natale. His portfolio was up 16.5%, boosted by three picks that soared 50% or more: warrants in Britain's Hanson PLC, conglomerate Triarc Cos. (formerly DWG), and the Malaysia Fund. On the other hand, Bernadette Murphy and Sheila Baird of M. Kimmelman & Co. in New York chose a conservative portfolio. Their picks were up only 1.6%.

The new crop of pros for 1994 faces a formidable challenge. The stock market, now at record levels, is entering the fourth year of a bull market, and to many experts, big gains will be hard to come by. Still, this year's investment pros are undaunted. Three think there are good prospects in the U.S., while



ELIZABETH B. DATER
Warburg Pincus Counsellors, New York

Stock	Price*
AMERICAN FREIGHTWAYS	19%
AUSPEX SYSTEMS	8%
CATALINA MARKETING	46%
CATHERINES STORES	18%
GENSIA PHARMACEUTICALS	25%
INFINITY BROADCASTING	29%
INTEGRATED HEALTH SERVICES	29%
METHODE ELECTRONICS	12%
NEXTEL	36%
NUTRAMAX	11%

*Dec. 13, 1993

one, based in Scotland, has chosen only foreign securities. The diversity of their picks illustrates just how far the experts are going to find value.

'THIS IS A PLAY ON ECONOMIC RECOVERY'

ELIZABETH B. DATER. At Warburg Pincus Counsellors Inc., a New York venture-capital and investment-management firm, Dater manages \$800 million, including the firm's \$200 million Emerging

Growth fund. She describes her strategy as "long-term investing in young companies for growth." She looks for stocks with high ownership by management, low ownership by institutions, unique products, and at least 20% annual earnings-growth potential. "The [market] sentiment is bearish, and I view that as an opportunity," she says. "I think we're in an ongoing period of moderate economic growth, so my stocks are tending to move into growth categories," she says.

In that vein, she has selected Infinity Broadcasting, Methode Electronics, and American Freightways. Infinity Broadcasting Corp., the nation's largest radio station owner, is poised to benefit from improved advertising as well as an investment in Westwood One Inc., which supplies radio programming. Methode makes electronic components for the computer, and telecommunications industries. "This is a play on an economic recovery," Dater says. In computers, Methode makes a key connector for memory cards used in surging portable computer markets. American Freightways is a trucking company in the Southwest that has thrived even during the recession. Dater says the company is nonunion and is well positioned to capitalize on an economic recovery.

In health care, Dater picks Gensia Pharmaceuticals Inc. and Integrated Health Services Inc. Gensia has three compounds in the late stages of human testing, including a potential blockbuster that prevents tissue damage during heart surgery. Integrated, the nation's leading provider of off-site subacute care, is a play on health care reform and should benefit from a trend toward shorter hospital stays, Dater says. In technology, Dater has chosen Nextel, which makes mobile radio, and Auspex Systems Inc., a software supplier that should do well in the multimedia market.

Her final picks are in retailing. Nutramax Products Inc. makes private-label personal-care products and next year

aching two personal-hygiene products h big growth potential, Dater says. alina Marketing Corp. specializes in puterized marketing strategies for ertain markets and has new technologies distributing coupons at the check-counter. Catherines Stores Corp. in mphis sells large-size women's appa- and Dater thinks it has better mer- ndising strategies than its competi- s going into 1994.

OKING TO HIGH TECH R LOTS OF GROWTH

PETER C. BENNETT. As chief investment of- r of one of Boston's oldest invest- it-management firms, State Street earch & Management Co., Bennett ages several mutual funds, with to- assets of about \$1 billion. A vete- of 30 years in the business, he de- bes his investment approach as ditional bottoms-up stock-picking." prefers well-managed companies with ng earnings growth. Bennett's port-

folio is counting on the economic recovery to keep going next year, and he looks for continued fast growth in high tech. He has chosen a mix of cyclical and high- and steady-growth stocks.

Heading his list of economical- ly sensitive stocks is General Mo- tors Corp. Although GM is lag- ging behind Ford Motor Co. and Chrysler Corp., Bennett sees a quicker-than-expected turn- around. "Most people don't really believe the major restructuring has really caught on," he says. Bennett does, because the econ- omy is improving, consumer confi- dence is up, there's a bulge of people in their mid-20s who are prime buyers of GM cars, and Japanese cars are too pricey.

The three remaining cyclical are Rowan, an offshore driller; Millipore, a biotech and semicon- ductor industry supplier; and Equitable Life Assurance Society, the insurance company. Bennett says Rowan Cos. is his most

speculative pick because its stock has gone no- where for several years and its prospects depend on strength in natural-gas prices and increased drill- ing activity in the Gulf of Mexico. Millipore Corp.'s stock has also been in the dumps lately. But Ben- nett says he's counting on rising demand for its fil- tration systems and a po- tential boost to earnings from the possible sale next year of a major division. In Equi- table, Bennett is expecting the company's turnaround to con- tinue more rapidly than most ex- pect next year.

In the steady growth cate- gory, Bennett picks Fannie Mae. Earnings are growing at 15% a year, while the stock is selling at a low multiple of 10 times earn- ings. He also likes Procter & Gamble Co., which he says "has a new lease on life" thanks to cost-cutting and a low-pricing policy.

Bennett's high-growth picks include a gaming company and three technology stocks. Promus Cos., which specializes in river- boats and has a casino in New Orleans, is expected to get ap- proval for several new riverboats in 1994, boosting its cash flow, Bennett says. IDB Communi- cations Group Inc. is starting up an international phone network and is "a mirror of the MCI story,"



MICHAEL MURPHY

Editor, *Overpriced Stocks Newsletter*
and *California Technology Stock Letter*,
Half Moon Bay, Calif.

Stock	Price*
CYGNUS THERAPEUTICS	10
EMULEX	6 1/2
NETWORK COMPUTING DEVICES	6 1/2
ROSS SYSTEMS	7 1/2
SEAGATE TECHNOLOGY	21
TELIO PHARMACEUTICALS	5 1/2
VICAL	11
WATERHOUSE SECURITIES (SHORT)	26 1/2
WEITEK	8 1/2
WELLS FARGO (SHORT)	122 1/2

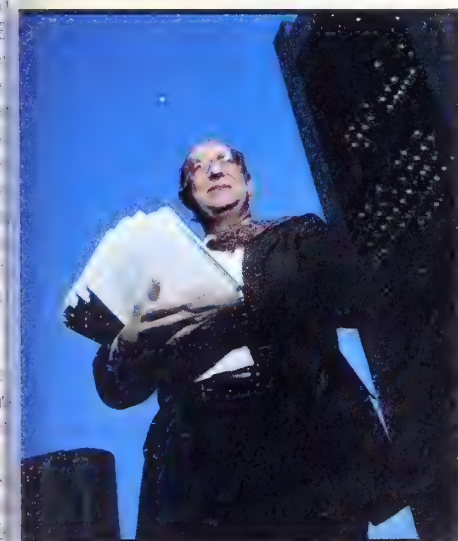
*Dec. 13, 1993

says Bennett. It's a small player, but its cable system is operating at 60% of capacity, he says.

His remaining two picks are in soft- ware. Cisco Systems Inc., which makes programs that link networks of comput- ers, is growing at a breakneck pace. Sy- base Inc. is the No. 2 data-base company behind Oracle Systems Corp., but Ben- nett claims that Sybase "probably has the best technology."

STICKING WITH THE BASICS

MICHAEL MURPHY. For the past 25 years, Murphy has been tracking high-tech companies and overpriced stocks and publishing his findings in two newslet- ters, *Overpriced Stocks* and *California Technology Stock Letter*. He also manag- es the new, \$2 million Monitrend Tech- nology mutual fund. He calls himself a fundamental investor, picking stocks based on their underlying financial strength. But he also looks for two spe-



PETER C. BENNETT

State Street Research & Management,
Boston

Stock	Price*
CO SYSTEMS	59 1/2
EQUITABLE COS.	25 1/2
FMA	79
GENERAL MOTORS	56 1/2
COMMUNICATIONS GROUP	47 1/2
MILLIPORE	36
PROCTER & GAMBLE	57
PROMUS	48 1/2
ROWAN COS.	8
SYBASE	40

*Dec. 13, 1993

different types of stocks. One is high-tech companies whose spending on research and development is rising compared with its market capitalization. The other is "high p-e stocks where economic damage has occurred but still hasn't gotten into the stock price yet."

Murphy, a longtime short-seller, favors this strategy for two picks: Wells Fargo & Co. and Waterhouse Securities Inc. Wells Fargo has a large portion of its loan portfolio in California real estate, which is still declining in value. Murphy expects to see big write-offs next year. Its shares recently traded at 122½, up from a 52-week low of 74, and Murphy thinks it will drop back down to the 70 level when the bad news hits. Similarly, Waterhouse Securities, a deep-discount broker, has "overexpanded" and will be hit hard in a bear market, Murphy says. The stock is trading at 26½, up from a 52-week low of 9.5, and will fall to about 13, Murphy predicts.

The rest of his portfolio is in two volatile markets: computers and biotech. His first pick is Emulex Corp., a networking software and disk-drive maker that is about to split into two companies. It's now trading at about 6. Murphy says the disk-drive business, which Emulex will soon spin off into a separate public company, is worth at least 10 a share. Combined, the two companies will be worth from 12 to 15. He also likes Network Computing Devices Inc., which makes low-cost terminals that substitute for expensive workstations, a market Murphy thinks will explode.

Another technology stock is software developer Ross Systems Inc. The company's software for accounting, human resources, and the factory floor is growing at about 80% a year, but the stock is trading at half its 52-week high of 15. He also likes disk-drive maker Seagate Technology Inc. Although caught in a vicious price war, Seagate is the low-cost maker and remains profitable. It should benefit if smaller rivals exit the market, as Murphy expects. He also likes Weitek Corp. It recently developed a chip that doubles the speed of the processor in Sun Microsystems Inc.'s Sparc workstations.

He adds a little diversity to the mix with three biotech stocks. Telios Pharmaceuticals Inc. has a product awaiting Food & Drug Administration approval that treats diabetic foot ulcers. Vical Inc., Murphy says, has the edge in the growing field of gene therapy. And Cygnus Therapeutic Systems makes transdermal patches that may soon be used to treat osteoporosis and heart disease.

AN EXOTIC MIX OF FOREIGN STOCKS

JOE SCOTT-PLUMMER. As chief investment officer for Martin Currie Investment Management Ltd. in Edinburgh, Scotland, Joe Scott-Plummer manages some \$5 billion for mutual-fund companies, pension funds, and endowments around the globe. He describes himself as a "growth manager with value" who invests primarily in emerging markets. He uses a geographic asset-allocation policy that can change monthly.

His picks include only one household name: Porsche. The company is bottoming out, he says, and has good growth prospects next year with two new cars. One is a low-cost roadster that will compete with Toyota's MR2 and Mazda's RX7. The other is the 964, a replacement for the classic 911. "Nobody's been

looking at Porsche, but they're in remarkably good shape," he says. The company has lowered its break-even point dramatically and expects sales to pick up.

The remaining picks are far-flung, but all are available to U.S. investors through brokers who can trade in foreign stocks. One caveat: Transaction costs may be higher.

In Poland, Scott-Plummer likes Elektrim, a trading house that imports power-generation systems. While its primary market is Poland, it has growth prospects in Russia and Turkey. He favors Compañia Peruana de Telefonos, Peru, which is making a big investment to improve its network and will see huge revenue gains from marginally increases in usage. Also in Latin America, he likes Argentine developer Inversidad y Represaciones (IRSA) in Buenos Aires. It buys state properties and redevelops them for sale or lease.

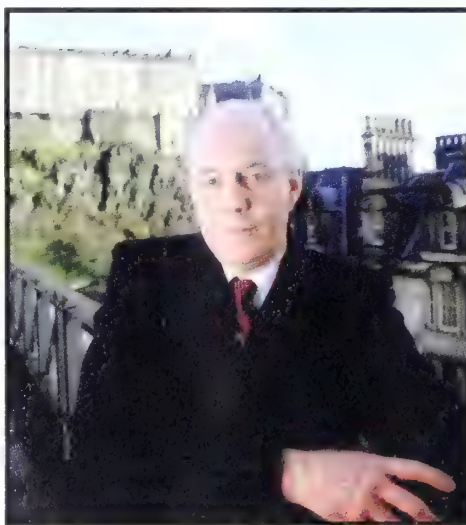
Moving to the Far East, Scott-Plummer has several picks. One is Lian in Malaysia, another property developer. The company has purchased a large plot of land near the Kuala Lumpur airport and is building an entire township. The kicker is that it has a gaming license to open casinos in China and the Philippines. In Japan, he has two picks: Aoyama Trading Co., which sells discount men's suits, and NGK Spark Plug Co., which manufactures oxygen sensors that make car engines more efficient and which supplies a vitreous-amic packaging for microchips.

In Britain, Scott-Plummer is on two companies. One is a conglomerate: the conglomerate BTR PLC, the former British Tire & Rubber. The company makes a broad array of industrial equipment and is a play on the economic recovery in the U.K. and Britain. The other is a turnaround situation: Hongkong Shanghai Banking Corp., a British banking company that took over New York's Marine Midland Bank several years ago. He expects improved earnings at Marine Midland and a boost from its Hong Kong mortgage portfolio.

Finally, Scott-Plummer likes his own firm's Indian Opportunities Fund, a mutual fund that is traded on the Dublin stock exchange and invests in Indian companies. "It's a proxy for India," he says.

Scott-Plummer says he has nothing against U.S. stocks, but at the moment, he sees better opportunities abroad. So it's U.S. stocks vs. foreign stocks. The race is on.

By Geoffrey Smith in Boston



JOE SCOTT-PLUMMER
Martin Currie Investment Management,
Edinburgh, Scotland

Stock	Price*
AOYAMA TRADING (JAPAN)	\$62.94
BTR (BRITAIN)	5.33
CPT (PERU)	3.35
ELEKTRIM (POLAND)	66.00
IRSA HOLDINGS	12.50
INDIAN OPPORTUNITIES FUND (LISTED ON DUBLIN EXCHANGE)	13.10
IRSA (ARGENTINA)	3.15
LARUE CONSOLIDATED (MALAYSIA)	1.96
NGK SPARK PLUG (JAPAN)	8.73
PORSCHE (GERMANY)	454.87

*Dec. 13, 1993

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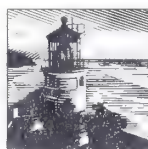
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A VERY GOOD YEAR— ESPECIALLY ON THE FRINGES

Niche funds were the hottest: Overseas, gold, small companies, convertibles, and high-yield bonds

The hottest mutual fund action in 1993 was not in the U.S. but overseas. The average equity mutual fund was up 16.5%, besting the 9.25% total return in the Standard & Poor's 500-stock index. But a good share of that boost came from the stellar performance of international equity funds. These include Pacific funds, European funds, foreign funds (which only invest abroad), and world funds (which invest both abroad and in the U.S.).

International funds were by no means the only winners. All in all, "it has been a very good year across the board," says analyst John Rekenhaller of Morningstar Inc., the data company that tabulates fund performance for *BUSINESS WEEK*. Yet in both equity and bond funds, he adds, "you were best off on the fringes. Returns were strong in part due to more aggressive specialty investments." That included not just overseas funds but those focusing on gold, small companies, natural resources, convertible issues, and high-yield and international bonds.

HOW STOCK-FUND GROUPS FARED IN 1993

Total return*		Total return*	
SPECIALTY-PRECIOUS METALS	78.63%	SMALL COMPANY	13.96%
PACIFIC	49.09	SPECIALTY-UTILITIES	13.17
FOREIGN	34.65	INCOME	12.41
WORLD	26.98	EQUITY-INCOME	12.22
EUROPE	22.18	BALANCED	10.20
SPECIALTY-TECHNOLOGY	20.62	GROWTH	9.82
SPECIALTY-NATURAL RESOURCES	18.17	GROWTH & INCOME	9.60
SPECIALTY-MISCELLANEOUS	17.60	SPECIALTY-HEALTH	0.22
SPECIALTY-FINANCIAL	15.09	DIVERSIFIED U.S. EQUITY	10.81
MAXIMUM GROWTH	14.93	ALL EQUITY FUNDS	16.5
ASSET ALLOCATION	14.03	S&P 500 INDEX	9.25

*Appreciation plus reinvested dividends and capital gains through Dec. 10

DATA: MORNINGSTAR INC.

Equity funds, though, generally did very well compared with the overall market. While U.S. diversified equity funds were up only 10.8%, they still beat the S&P. That wasn't bad considering that in most years they lag the S&P, on average, by about two percentage points. Out of 19 stock-fund categories, all but one beat the S&P index and 16 made double-digit gains.

The hottest new kind of mutual fund category was emerging markets. Many of those funds are Pacific Basin funds,

which were up an average of 49%. Some brand-new funds, such as Fidelity Emerging Markets and Newport Tiger fund, which invest in countries such as Hong Kong, Malaysia, and Singapore, topped the charts with returns of more than 60%. Many of the largest equity mutual funds also boosted their returns by putting some of their assets to work overseas. The iRoPacific Growth fund from Los Angeles-based Capital Research & Management, was up 31%. International bond funds were big winners as well.

While low rates made the money-market crowd restless, world bond funds, which buy mainly non-U.S. issues, posted an average 15.4% return.

Precious-metals funds topped the charts, with a 78.6% rise. Half of the top 50 list were gold funds. Because of the many mining stocks that traded there, the American Stock Exchange was up 16.8%. By far, the top fund in 1993 was Lexington Strategic Investments, which was up 248%. It invested only in South African gold shares and

THE 25 LARGEST EQUITY FUNDS

	Assets* Billions	Total return** 1993	Total return** 5-yr. avg.
Fidelity Magellan	\$30.33	22.04%	19.03%
Investment Company of America	18.59	10.22	14.42
Washington Mutual Investors	12.36	11.65	13.31
Vanguard/Windsor	10.42	18.52	11.29
Income Fund of America	10.03	12.11	13.22
Janus	9.07	10.39	19.72
Fidelity Puritan	8.64	20.30	14.17
Fidelity Asset Manager	8.18	20.81	15.39

*As of Sept. 30

** Includes dividends and capital gains
All 1993 return data through Dec. 10

	Assets* Billions	Total return** 1993	Total return** 5-yr. avg.
Vanguard Index 500	\$8.09	9.18%	14.26%
Vanguard/Wellington	7.92	12.66	12.24
Twentieth Century Ultra Investors	7.84	19.48	28.27
Vanguard/Windsor II	7.48	13.48	13.43
Fidelity Growth & Income	7.27	17.75	17.75
Fidelity Equity-Income	6.41	19.34	12.58
Dean Witter Dividend Growth Secs.	6.38	13.24	13.87
Vanguard/Wellesley Income	5.84	14.51	13.59

	Assets* Billions	Total return** 1993	Total return** 5-yr. avg.
Fidelity Contrafund	\$5.79	19.07%	26.01%
Putnam Fund for Growth & Income A	5.19	13.44	13.49
American Mutual	5.17	13.23	12.88
EuroPacific Growth	5.09	31.68	14.86
Growth Fund of America	4.95	12.41	15.94
Twentieth Century Select Investors	4.92	13.51	14.21
Fidelity Equity-Income II	4.80	17.42	NA
AIM Weingarten	4.79	0.98	16.36
Prudential Utility B	4.74	13.82	13.71

DATA: MORNINGSTAR INC.

done well by buying undervalued mining companies that have appreciated with rising gold prices.

But gold tends to be a very volatile and risky category. How volatile? In 1992, Lexington was the worst fund—almost 60%. Even so, Caesar M. P. Ryan, the fund's manager, remains ardently bullish. "I still think the fund is very well placed if we get gradually appreciating gold prices," he says.

Indeed, most categories of equity mutual funds did quite well. After gold, technology funds were the best specialty funds, up 20.6%. And natural-resource funds posted an 18.2% gain, driven by higher U.S. natural-gas prices. Brian Warner, who manages Fidelity's Equity-Income II fund, says that continued tight supply of natural gas and rising oil prices—which he thinks have bottomed out, would mean continued gains for this category.

Part of the solid performance of several of Fidelity's biggest funds, in fact, can be credited to their bets on natural resources and technology. The two largest holdings of the Magellan Fund, which was up 22%, were semiconductor companies, such as Motorola and Texas Instruments, and natural-gas companies, such as Burlington Resources. Magellan also had a big position in U.S. treasury bonds when they took off. Now, Magellan's Jeff Vinik is building a major position in automotive stocks, as well as a few special situations, including Sears, Roebuck & Co. and Lowe's Cos.

FINANCIAL CARE. It was midsize growth funds that drove the Twentieth Century Ultra Fund, which was up 19.5% in 1993. That's on the heels of the fund's 13.3% gain in 1992. The fund's largest positions were in communications, computer software, and semiconductors. Now the fund is rotating into smaller, faster-growing names in these other sectors to keep up with the fund's huge growth from \$400 million to \$8 billion in the last three years. "As long as the economy holds up, and people don't shy away from stocks, and prices stay low, stocks offer relatively active total returns that will last for the next year to two years," says James Walters III, the president of the Twentieth Century Investors Inc.

The worst performers were health-care funds, which were up 0.2%. Largely due to uncertainty about President Clinton's health-care reform plan, the worst-performing funds were littered with names like Invesco Strategic Health Sciences, Merrill Lynch Healthcare, and Putnam Health Sciences. Jordan Schreiber, the manager of Merrill Lynch Healthcare fund, sees a few bright spots in the coming year. He is focusing on certain HMOs, biotech

EQUITY FUNDS: 1993'S WINNERS AND LOSERS

THE BEST	
	Total return
Lexington Strategic Investments	248.05 %
United Services Gold	109.30
Van Eck International Investors	103.49
Fidelity Select Precious Metals	101.04
Blanchard Precious Metals	99.79
Excel Midas Gold	95.74
Keystone Precious Metals	94.32
United Services World Gold	85.38
Morgan Stanley Instl. Asian Equity	84.07
Thomson Prec. Metals & Res. A	83.41
Vanguard Gold/Prec. Metals	83.15
Bull & Bear Gold Investors	81.67
Benham Gold Equities Index	80.53
Lexington Goldfund	78.41
Fidelity Select American Gold	78.38
DFA Pacific Rim Small Company	77.29
IDS Precious Metals	75.46
Dean Witter Pacific Growth	74.96
Van Eck Gold/Resources	74.93
Lexington Strategic Silver	72.61
Invesco Strategic Gold	72.38
Morgan Stanley Instl. Emerging	70.94
Merrill Lynch Dragon A	70.55
United Gold & Government	70.53
Pioneer Gold	68.89
Franklin Gold	66.90
Eaton Vance Greater China Growth	66.84
Fidelity Emerging Markets	66.07
T. Rowe Price New Asia	65.22
GAM International	63.91
EquiFund Hong Kong Natl. Fid. Equity	63.54
Govett Emerging Markets	62.88
Templeton Developing Markets	62.31
Scudder Latin America	61.04
Newport Tiger	60.31
Smith Barney Shearson Prec. Met. & Min. A	58.64
59 Wall Street Pacific Basin Equity	58.60
GAM Global	58.52
John Hancock Freedom Pacific Basin	58.17
USAA Investment Gold	56.50
Prudential Pacific Growth A	56.32
Mackenzie Canada	56.31
Oppenheimer Gold & Special Minerals	55.71
Scudder Gold	54.77
Merrill Lynch Developing Capital Mkt.	54.51
Dean Witter Prec. Metals and Minerals	53.68
Fidelity Pacific Basin	53.36
Govett Smaller Companies	51.70
G.T. Global Emerging Markets A	51.02
Rushmore Precious Metals Index Plus	50.55

THE WORST	
	Total return
Pilgrim Corporate Utilities	-18.15 %
Invesco Strategic Health Sciences	-11.80
Dean Witter Capital Growth Securities	-10.53
Invesco Strategic Environmental Svcs.	-10.00
Excel Value	-8.85
Jensen	-7.97
Steadman Ocean. Technology	-7.43
Yacktman	-6.76
Pasadena Growth	-6.35
Flag Investors Quality Growth	-6.34
Reynolds Blue Chip Growth	-5.93
Principal Pres. Dividend Achievers	-5.87
Kemper Environmental Services	-5.83
Rainbow	-5.74
Beacon Hill Mutual	-5.68
Voyageur Growth Stock	-5.62
Wasatch Mid-Cap	-5.40
Monitrend Summation	-5.13
Merrill Lynch Healthcare A	-4.87
Society Earnings Momentum Equity	-4.81
Righttime Growth	-4.74
John Hancock Freedom Global Rx	-4.22
Franklin Rising Dividends	-4.19
Eaton Vance Growth	-3.96
Morgan Stanley Instl. Emerging Growth	-3.88
Dean Witter Equity-Income	-3.77
PaineWebber Dividend Growth A	-3.45
Oppenheimer Global Bio-Tech	-3.13
Putnam Health Sciences A	-3.12
Anchor Capital Accumulation	-2.82
Flag Investors Emerging Growth	-2.76
One Group Blue Chip Equity Fiduciary	-2.67
MIM Stock Income	-2.60
Fountain Square Quality Growth	-2.53
GAM North America	-2.46
Midwest Strategic Growth	-2.46
FAM Value	-2.34
Boulevard Blue-Chip Growth	-2.32
Righttime Social Awareness	-2.31
John Hancock Freedom Environmental A	-2.15
Blanchard American Equity	-2.10
Vanguard U.S. Growth	-1.95
Fidelity Select Biotechnology	-1.94
First Investors Made In The U.S.A.	-1.82
Dreyfus-Wilshire Target Large Co. Growth	-1.50
Hawthorne Sea	-1.47
Charter Capital Blue Chip Growth	-1.40
Fidelity Select Health Care	-1.32
Reynolds Opportunity	-1.29
Fiduciary Exchange	-1.25

Appreciation plus reinvested dividends and capital gains, through December 10, 1993

DATA: MORNINGSTAR INC.

MUTUAL FUNDS

companies, and foreign health-care stocks. The group "will be up 4% to 5%" in 1994, says Schreiber.

This year's healthy returns weren't lost on yield-hungry investors. Equity mutual funds took in a record \$104.2 billion through Oct. 31, besting 1992's total inflow of \$78.1 billion. And bond funds took in \$103.8 billion, compared with \$93.5 billion in 1992. Most of all, 1993 will be remembered as the year international investing caught fire. Some \$22.5 billion went into global funds, compared with \$2.3 billion in 1992, with most of that going into global stock funds, says the Investment Company Institute.

Though ICI doesn't track inflows for the emerging market funds, they certainly attracted big sums from investors. But even the pros admit emerging markets will have a tough time continuing at this torrid pace. For years, these markets languished outside the investment mainstream. But in 1993, that all changed. "A lot of that value has been recognized this year. We won't have 50% to 100% returns," in 1994, says Madhav Dhar, who runs Morgan Stanley's Institutional Emerging Markets and Asian Equity Funds. "Expect a more sober

Emerging markets delivered scorching returns—but they'll have a hard time keeping up that torrid pace

15% to 20%." Dhar's biggest position in the Emerging Markets fund was in Brazil, whose market went up 120% in 1993.

Among bond funds, GT Global High Income headed the charts, with a 48.5% gain. It invests in junk debt issued by governments of developing countries. Its biggest and most profitable positions were in Latin American debt and also Moroccan, Polish, and Nigerian government debt, all of which is below investment grade. While there is still lots of potential for these and other fledgling markets, 1993 will be hard to beat, since prices fell dramatically as world investors recognized their value. "We won't do as well in performance terms," says Robert Allen, a senior vice president for GT Capital Management, who expects returns in the 15% to 20% range next year.

High-yield, or junk, bond funds turned in an average 18.1%. The economic recovery and low interest rates and inflation mean improved credit quality, higher earnings, and lower coupons for junk issuers. "1994 will be good but not as good as 1993," says Peter Avellar, who manages the Dean Witter High-Yield Securities fund, which was up 30.2%. I sees returns in the 13% to 15% range in 1994, which by far will top what's available in investment-grade bonds.

Evan R. Steen, manager of PaineWebber's High-Income fund, which posted a return of 21.1% this year, says these favorable conditions will enable more companies to deleverage through refinancings and initial public offerings. Steen attributes the past performance of PaineWebber's fund to a strategy of buying junk issued by "stable improving" companies, rather than focusing on interest-rate sensitivity.

"VERY COMFORTABLE." Municipal bond funds, star performers in 1993 with a 11.4% return, should continue to shine in 1994, funds managers say. The two key reasons are the higher marginal federal income tax rate under the new tax law and the dramatically reduced supply of new issues. According to Thomas J. Fetter, director of municipal investments at Eaton Vance Management, which has four of the top 21 tax-free bond funds in 1993, the supply of new issues next year is likely to drop to about half of the nearly \$300 billion issued in 1993. Although municipalities may not produce the double-digit returns of the last few years, Fetter expects that returns next year will be "very comfortable."

Boosted by declining interest rates, convertible bond funds also had a good year, with the average fund returning 14.4%. But Hugh H. Mullin, portfolio manager of the Putnam Convertible Income-Growth Trust, which posted a return of 15.9% in 1993, doesn't expect the convertible market to continue performing "at the same magnitude for the next couple of years."

Treasury-only funds that invest in zero-coupon bonds were among the other bond-fund leaders. Four Benham Target maturity funds posted returns of 22.6% to 41%. But watch out—because zero-coupon bonds do best when rates fall and get hammered when rates rise. With rates perhaps approaching an upturn, these are risky funds to own.

If the economy stays strong and rates stay low, 1994 could be another good year for mutual funds. But investors will find it tough matching 1993 returns, an unusual year when most money managers beat the averages.

By Leah Nathans Spiro, with Phillip Zweig and Suzanne Wooley in New York

THE BEST BOND FUNDS

1993's BEST TAXABLE BOND FUNDS

	Total return
G.T. Global High-Income A	48.53%
Benham Target Maturities 2020	40.97
G.T. Global Strategic Income A	40.72
Benham Target Maturities 2015	34.84
Alliance Bond Corporate Bond A	30.64
Dean Witter High-Yield Securities	30.17
Keystone America Strategic Income A	29.79
Benham Target Maturities 2010	28.45
FT International Income A	24.83
MainStay Convertible	24.57
Keystone Custodian B-4	24.30
MAS High-Yield Securities	24.17
G.T. Global Government Income A	23.98
Fidelity Capital & Income	23.69
Northeast Investors	22.88
Bull & Bear Global Income	22.83
Benham Target Maturities 2005	22.57
Loomis Sayles Bond	22.03
Standish International Fixed-Income	21.91
Morgan Stanley Instl. High-Yield	21.49
Pacific Horizon Capital Income	21.36
Average of 838 funds	9.88

1993's BEST TAX-FREE BOND FUNDS

	Total return
Evergreen Insured National Tax-Free	15.72%
Smith Barney Shearson Managed Munis A	15.40
Cambridge Municipal Income A	15.01
UST Master Long-Term T/E Non-Plan	14.86
California Muni	14.82
Vista Tax-Free Income	14.73
Transamerica Tax-Free Bond A	14.68
Eaton Vance LA Tax-Free	14.68
Sierra Trust National Municipal	14.61
Flagship NY Tax-Exempt A	14.61
Fidelity Spartan FL Municipal Income	14.43
Van Kampen Merritt T/F High-Income A	14.42
Lord Abbett Tax-Free Income PA	14.39
MFS FL Municipal Bond A	14.26
Rochester Fund Municipals	14.20
California Investment Tax-Free Income	14.15
MFS TX Municipal Bond A	14.15
First Investors Multi-St. Ins. T/F AZ	14.07
Eaton Vance AZ Tax-Free	14.05
Eaton Vance National Municipals	14.03
Eaton Vance TN Tax-Free	14.02
Average of 694 funds	11.39

*Appreciation plus reinvested dividends and capital gains through Dec. 10

DATA: MORNINGSTAR INC.

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'THE BIG MONEY HAS ALREADY BEEN MADE'

With the economy chugging along steadily, the days of easy bond-market earnings are past

Maybe 1993 will turn out to be the year in which a roomful of economists strung end-to-end did actually reach a conclusion.

Almost to a man and woman, they agree that the U.S. economy in 1994 will chug along at a moderate, steady pace, with little risk of a sharp rise in inflation or long-term interest rates. They expect weaker oil prices and the Clinton Administration's tax hike to help keep inflation in check. And while they acknowledge that there's always the chance that something might appear from left field to wreak havoc with their forecasts, they don't think that's very likely.

Under this scenario, short-term interest rates should move up by about 50 basis points in the first half of the year, while the benchmark 30-year Treasury bond should trade between 6% and 6½%, though it could scrape bottom at 5½%. "1994 looks like it's going to be a good year," says Edward J. Campbell, chief economist at Brown Brothers Harriman & Co.

But since good news for the economy is not usually good news for the bond market, what does this mean for fixed-income investors?

For one thing, investors who've gotten hooked on intoxicating double-digit returns over the past several years could be in for a rude awakening. In

the domestic bond market, investors will generally have to satisfy themselves with single-digit returns from interest income rather than the hefty capital gains generated by plunging interest rates. "The big money has already been made in bonds," says Campbell. "It's become more of a traders' market." Adds Barbara Kenworthy, portfolio manager at the Dreyfus Corp.: "Two years ago, interest rates were so high it didn't matter where you were. Selection didn't make a lot of difference." Now, she says, "the chances for an easy home run are over. You have to do your homework" and be prepared for surprises. Next year, she adds, the market sectors hitting "home runs" will change frequently:

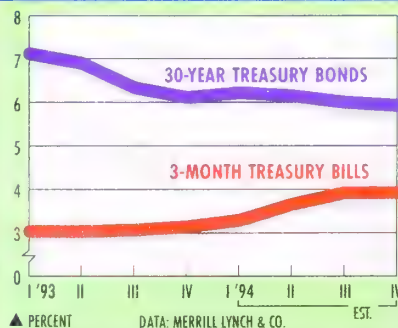
"one month, long Treasuries... the next month, junk, the next month, emerging markets."

For investors still yearning for returns driven by the capital gains of yesterday, money managers offer this tentative piece of advice: Think global, junk, and munis—probably in that order.

"The real story for fixed income is the non-U.S. market," says Thomas Steffanci, director of fixed income atidelity Investments. He believes that individual investors now ought to have between 10% and 15% of their total portfolio in global fixed-income instruments. "The European, Asian, and emerging markets are the most attractive areas," he says. There are several reasons for this. With Japan and Germany mired in recession, economists believe that interest rates in those and other developing countries still have more room to drop. **FOREIGN ADVENTURE.** Stephen Axilrod, vice-chairman of Nikko Securities Company International and a former Federal Reserve Board official, says that the prospects are "very good" for the Europeans to ease short rates, because the economies are so weak. Ditto for the Japanese: Even though Japan has already lowered short-term rates dramatically and its Fed funds-rate equivalent is now 2.5%, Axilrod says it "ought to go down another point."

Steffanci says that the bond market

OUTLOOK: STEADY LONG RATES, HIGHER SHORT RATES





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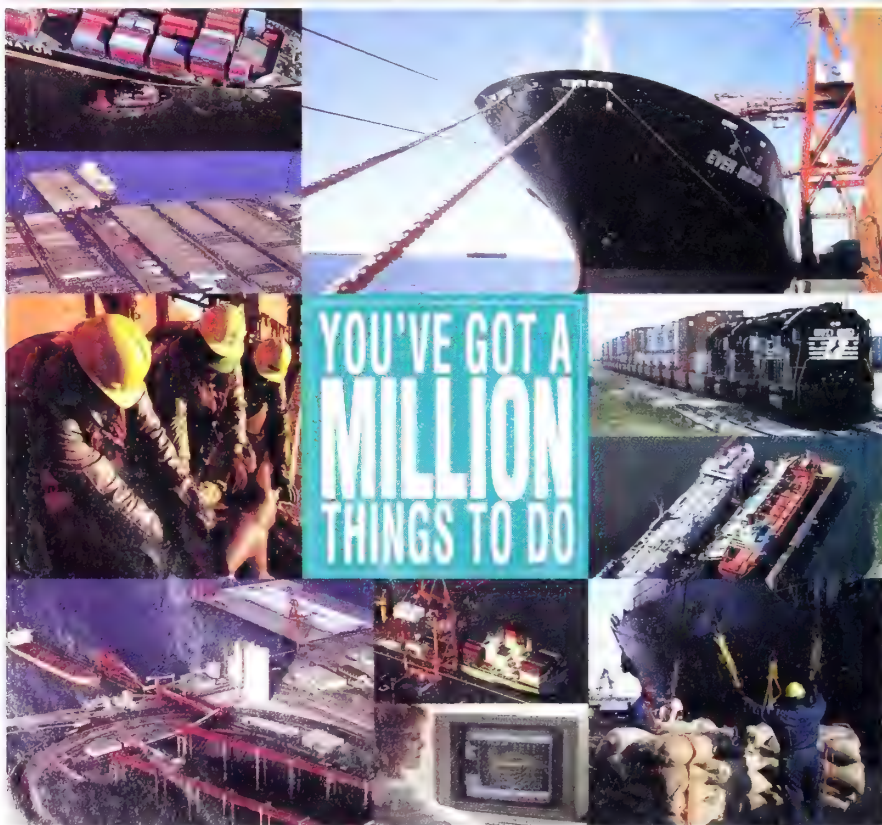
(a) Average Annual Returns reflect changes in share price, reinvested dividends and capital gains and are net of expenses. Investment results and the principal value of an investment will vary. The past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. The prospectus contains more complete information, including fees and expenses. Read it carefully before you invest or send money.

in France, Germany, Denmark, Malaysia, Thailand, and Indonesia "are likely to hold the most promise." He and others are also bullish on the prospects for the Latin American fixed-income market, notably in Mexico and Argentina—both for different reasons. There, he says, the capital gains will occur when—not if—the rating agencies upgrade the sovereign debt of those countries to investment-grade status. Yields on these issues, currently hovering about 225 to 250 basis points over U.S. Treasury, are out of line with the real risk of default. When the upgrades occur, Steffanci says, they will unleash a massive inflow of money from pension and other funds now barred from investing in junk-grade debt.

"You're going to hear a big sucking sound" of money flowing into these securities, he says. Of the Latin nations, only Colombia and Chile are now rated investment-grade. Though Steffanci doesn't see further 30% to 40% returns in emerging-market bonds or the 15% to 20% returns in developed-world debt posted in the past year or so, he feels emerging-market bond buyers could get returns of half recent levels. Investors could earn returns in the low double digits on developed-country instruments, he thinks. The Latin fixed-income market will be volatile, adds Dreyfus' Keworth, but "the Latin names will be some of the stellar performers."

Although such countries as Mexico and Argentina are beginning to issue dollar-denominated "Yankee bonds" that, in theory, Mom and Pop can buy, money managers generally advise individuals seeking to participate in the global fixed-income market to buy funds, rather than single issues. Buying and selling of lots is typically expensive and inconvenient. Moreover, U.S. individual investors are often the last to hear bad news that would hurt the prices of, say, Latin issues. And bonds are more vulnerable than a bond fund to currency exposure.

JUNK FUNK. In the domestic market, many portfolio managers expect the junk and municipal sectors to turn in their strongest performance next year. "We see more cases of improving credits than declining ones," says A. Keith Brodsky, chairman of Massachusetts Financial Services, a mutual-fund manager. Andidelity's Steffanci says that the 450 to 500 basis-point spread between junk and Treasury issues reflects a higher historical default rate than is likely to occur in 1994. Steffanci, for one, expects the spreads to narrow next year. In contrast, he says, investors can expect "very little" in capital gains from investment-grade corporate issues, though there are some managers who say the



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ies in the low-investment-grade re-
n represent good values.

Dreyfus Corp.'s Kenworthy is less en-
siastic about the junk market. Al-
ugh she says that there are still
e runs to be scored on individual
ies, she is reluctant to recommend
m to small investors. As for junk
ds, she says that many money man-
rs, in an attempt to deliver on prom-
d high yields, sometimes invest in
ond or third choices. Dreyfus, she
its out, doesn't offer a junk fund.

PLUNGE. Some fixed-income special-
say municipals could be star per-
ners in 1994, as they have been this
r (page 118). For one thing, the max-
m federal tax rate has been hiked to
15%. Pressure on local governments

for spending cuts
may mean an ex-
cess of demand
over supply.

Because interest
rates have been so
low for so long,
money managers
think home-mor-
tage refinancing
will slow down
next year from its
record 1993 pace.
That's good news
for investors in
mortgage pass-
through funds,

ch have suffered from the high vol-
e of prepayments in 1993. Capital
is, if any, are likely to be modest in
market, but because of the expected
ine in prepayments, returns will also
ess volatile.

ome money managers worry that
er fixed-income returns could prompt
sophisticated investors to reach for
is even more than they have done in
past. This year, for example, buyers
inds loaded with so-called "interest-
" instruments watched the value of
r investments plunge 50% or more.
ritably, Wall Street alchemists next
will offer investors new and un-
d securities to satisfy their thirst for
er yields. Some of these will con-
derivative instruments. Money man-
rs point out that when used as a
ging device, derivatives are a useful
nique. But they warn that deriva-
s combined with leverage can be a
ula for disaster, especially if interest
s rise. If such an investment promis-
eturns much higher than those avail-
on similar plain-vanilla instruments,
ch out. Says MFS Senior Vice-Presi-
Leslie J. Nanberg: "If certificates of
osit are at 3% and someone offers
a fund yielding 10%, that doesn't
ecessarily mean it's a bad investment,
it certainly is a riskier one."

By Phillip L. Zweig in New York



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ANOTHER MUNIFICENT YEAR FOR MUNIS

Higher taxes and yields are making them a rugged, reliable shelter

Investors who bought municipal bonds at the beginning of 1993 can pat themselves on the back. They probably had a banner year.

And the way 1994 is shaping up, they may deserve another pat a year from now, if they keep their holdings. Why? A looming federal tax hike, a decline in supply, and high muni yields relative to Treasury securities, all of which should push up prices.

Higher taxes—no surprise—continue to be the key factor. In 1993, they overwhelmed such bearish forces as \$290 billion in new muni bonds issued by cities, states, and public authorities, surpassing the record \$232 billion in 1992 (chart). Similarly, a spate of muni-market scandals involving questionable political contributions by Wall Street firms failed to deter buyers. In 1993 through Dec. 10, muni bonds had a total return of 13.5%, according to Applied Municipal Network.

ROSY OUTLOOK. In 1994, buyers are expected to continue scrambling to put their money in one of the last remaining tax shelters. Even though the new federal taxes became effective at the beginning of 1993, few taxpayers increased withholdings from their 1993 paychecks. That means they stand to get hit with big tax bills come Apr. 15—and they will probably start thinking harder about tax-exempt investments. "When they write out that check, that's when they'll change their [investment] allocation," says Pamela Hunter, a vice-president at Chase Manhattan Bank.

Adding to the rosy outlook is the prospect of fewer new issues in 1994. Thousands of municipalities in 1993 issued low-coupon bonds to refinance higher-coupon issues. If rates stay stable or

increase, the refinancing will slow. Ann C. Stern, chairman and chief executive officer of Financial Guaranty Insurance Co., a muni insurer, expects \$200 billion or less in new issues in 1994.

Investors getting into the market now should also find prices on their holdings rising as yields fall relative to T-bonds. Yields on high-grade tax-exempt bonds are now within only 0.2% of Treasury bonds of the same maturity, so the aftertax yield of the munis is much higher. With top tax rates increasing to 39.6%, munis would have to yield close to 0.4% less than comparable Treasuries for the aftertax return to be the same. If the spread between muni and Treasury yields were to widen to that extent, it would produce a substantial rise in bond prices.

High-grade bonds are currently the best bet. Single-A bonds are yielding just 0.1% more than comparable insured triple-A securities. "In the muni market, you really don't get paid for taking a big chance," says Robert Godfrey, executive vice-president of the Municipal Bond Investors Assurance Corp.

You don't get paid for going long, either. If you want to pick up some yield

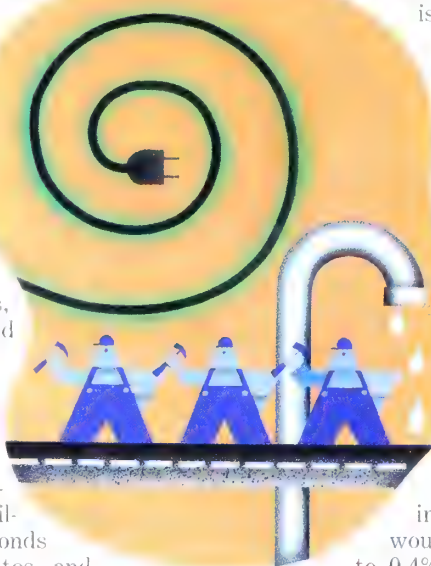
but limit your exposure to a possible rise in interest rates, stick to 7- to 10-year bonds. James J. Cooner, a senior vice-president at Bank of New York, notes that there's little increase in yield between 10- and 30-year bonds. And because longer-term bond prices tend to fall more than short-term ones when interest rates rise, long-term bonds are riskier. "The biggest risk in the municipal bond market today is investing in long-term bonds at the bottom of the interest-rate cycle," he says. The same is true for long-term muni-bond funds.

CALIFORNIA COMEBACK. As for regions to consider, a number of portfolio managers are turning more bullish on California, whose bonds have gotten beaten up—and perhaps too beaten up—because of worries about the state's economy. "We look at a state like California just as we looked at Massachusetts" a couple of years ago, says Richard J. Moynihan, a portfolio manager who oversees Dreyfus Corp.'s \$30 billion in tax-exempt funds. Moynihan also views New York as a "tried and true" issuer, and says Dreyfus is for part of a \$702 million bond issue on Dec. 8 from the state's Local Government Assistance Corp.

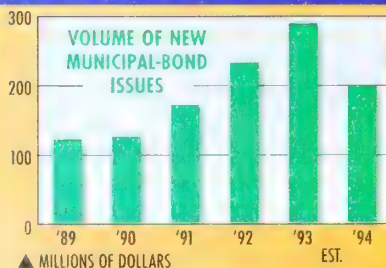
General-obligation bonds around the country also look good. General tax receipts that back GO bonds should increase as the economy improves, says Chase's Hunter, who manages \$2 billion in tax-exempt funds. She is buying Florida bonds because the state may soon raise its tax on intangible assets, thereby improving its fiscal health.

Muni bonds all over the country should perform relatively well, however. Tough times for taxpayers generate a positive side effect—a boon to muni-bond holders.

By Kelley Holland in New York



CLOSING THE SPIGOT



ACTION

For a combination of some interest-hike protection and attractive yield, stick to 7- to 10-year munis

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TAKING SOME OF THE FEAR OUT OF FUTURES

Managed funds can offer top returns while hedging volatility

Diversification has long been part of the investors' credo. But until recently, only the brave would consider futures contracts for their diversified portfolios. After all, commodities have a justly deserved reputation as a zero-sum game in which there's a loser for every winner, and more often than not, it's the retail investor who winds up with the short end of the stick.

Now, the game is changing. By buying into managed futures funds, individual investors can get the benefit of diversification while keeping the risk of the pits at bay. Generally, futures funds do well when stocks are taking it on the chin. True, the funds can be volatile, but over the years, managed funds have shown returns that top those of other portfolio-diversification vehicles, such as gold, real estate, and the like. And because these funds often employ several trading firms to make investment decisions, investors are not reliant on the hot hand of just one manager.

HOUSEHOLD NAMES. Futures funds are attracting an increasing number of investors. Today, an estimated \$30 billion is invested in futures funds—triple the level of just three years ago. Such household names as Dean Witter Reynolds, Merrill Lynch, and Shearson Lehman Brothers are among the firms sponsoring commodity funds that trade in agricultural as well as financial futures. And while futures investors generally have a high-roller image, many of these funds will accept initial investments of as little as \$2,000 from an Individual Retirement

What kind of return is that money buying? The 514 futures funds and commodity pools tracked by industry news-

letter *Managed Account Reports* posted an average 12% gain through October, the latest date for which results are available. Fund managers cashed in on volatility in the currency markets, the steady

the right fund could serve as an insurance policy against a stock market dive. "What futures funds have going for them is that they can trade on both

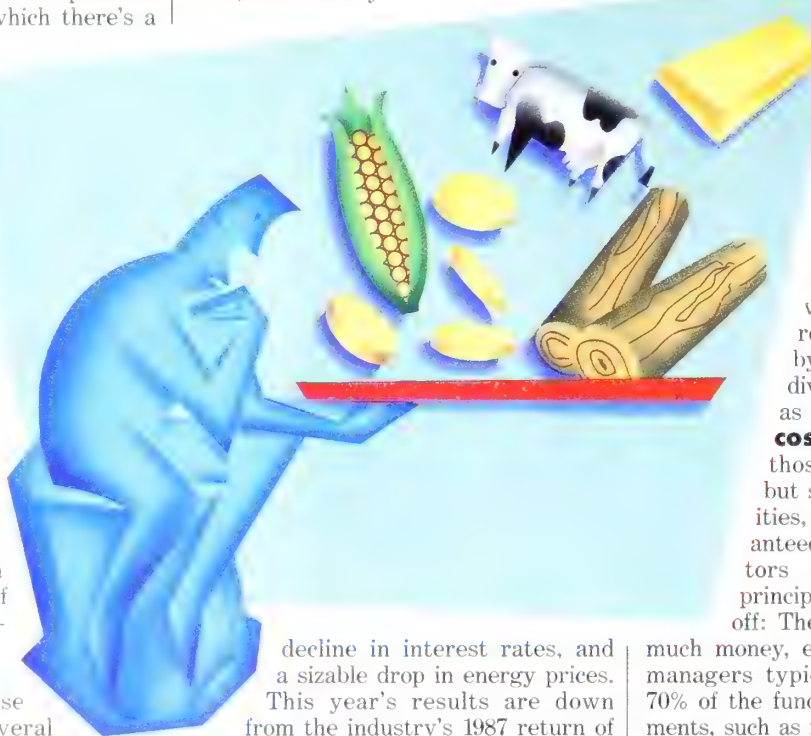
sides of the market," figures Ruth Sanford Romaine, executive vice-president of RXR Group in Stamford, Conn. "They can make money when prices go up and make money when they go down. That's also true for hedge funds, but because futures funds invest only in futures, their results are not influenced by the performance of individual stocks and options as hedge funds might be."

COSTLY GUARANTEES.

For those who want diversification but still don't trust commodities, some firms offer guaranteed funds in which investors can never lose their principal. But there's a trade-off: They probably won't make

much money, either, because the fund managers typically invest more than 70% of the fund's assets in safe instruments, such as medium-term Treasury. "Guarantees dilute the performance of the fund," says Richard Pike, president of RP Consulting Group in St. Petersburg, Fla.

Managed futures are typically broken into two groups: funds and pools. Private pools are unadvertised limited partnerships. They may have an unlimited number of "accredited" investors who have net worths of \$1 million or annual incomes greater than \$200,000. The partnership may accept up to 35 investors with less sterling credentials. Minimum investments start at just \$25,000 for newer pool operators and can run over \$2 million to invest in pools managed by marquee names, such as Paul Tudor Jones II or John W. Henry & Co. Futures funds attract a broader clientele and typically require a minimum upfront investment of around \$5,000. U



decline in interest rates, and a sizable drop in energy prices. This year's results are down from the industry's 1987 return of 46.9% but better than the 11.5% loss posted in 1986, the worst performance since *MAR* began tabulating results in 1979. This year, investors who chose the top fund, JWH Global Strategies Series H, saw a 63% return thanks to the fund's savvy trading in Japanese financial instruments.

With stocks at all-time highs, futures funds could be especially attractive, and

.....
*With stocks at all-time highs,
 the right futures fund
 could serve as
 an insurance policy against
 a stock market dive*

A Clear View of the World

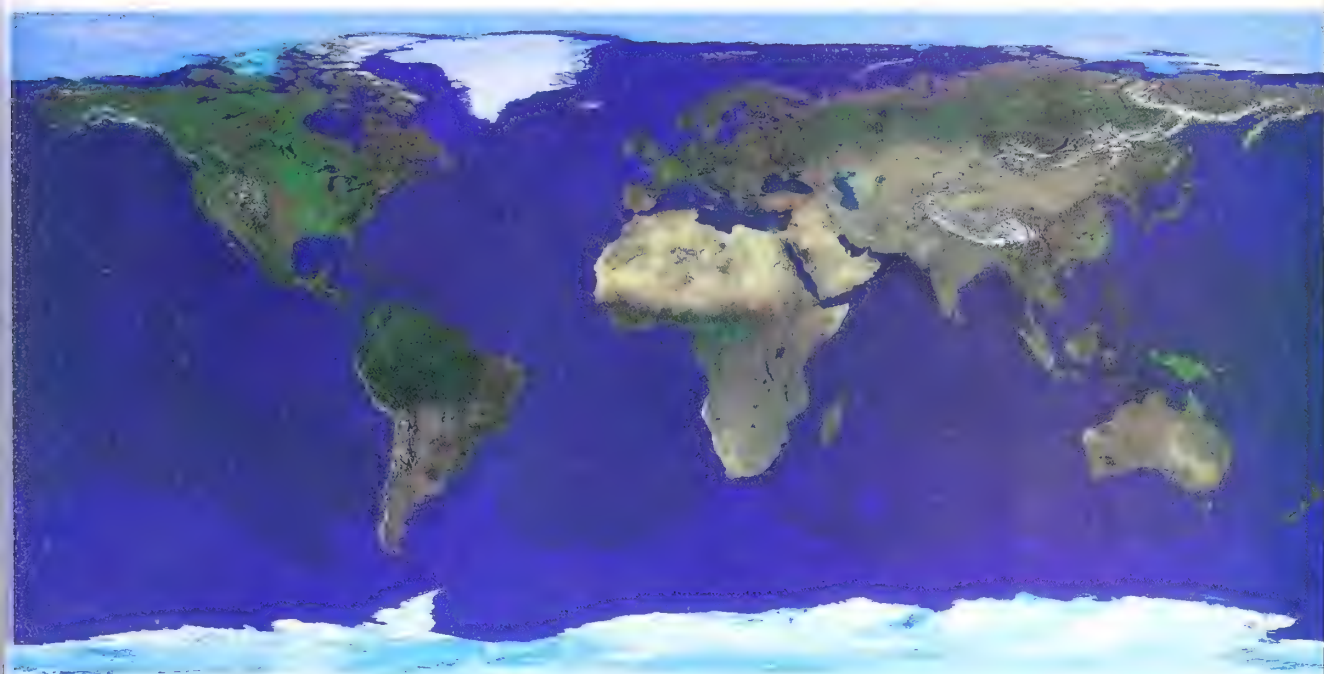


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like pools, funds have hefty disclosure documents that regularly run to 20 pages and more.

In many ways, managed-futures funds operate like mutual funds. They pool investors' assets and enable them to share the costs, risks, and returns of trading. But futures funds have some significant differences. They tend to have higher cost structures. They rely on more than one manager for investment decisions. And while their returns can be predictable over long time periods, their performance often varies widely from month to month. "For some people, volatility is just too painful," says Mark Hawley, head of managed futures at Dean Witter Reynolds Inc. "A futures fund might help diversify their portfolio, but their temperament isn't suited for it."

Their pocketbooks may not be suited for the funds' rather sizable costs either. Up-front charges, or loads, can average 4% of an individual's investment, and trading advisers usually earn a management fee equivalent to about 1% a year. It's also typical for advisers to earn an incentive fee for profitable trading that can top 3% of the fund's assets. Futures markets often involve more active trading than equities, and trading commissions add up fast. And because most futures funds are closed-end investments, the cost of exiting can be substantial.

SHOTGUN. Costs aside, there's one characteristic that sets futures funds apart: the multimanager structure. Unlike equity mutual funds, which typically rely on one manager, the sponsors of futures funds normally hire three or more trading firms, or "commodity trading

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GNI DIRECTIONAL PROGRAMME

37.87%

TACTICAL COMMODITY FUND

37.49%

IDS MANAGED FUTURES

33.59%

GOVETT MIS JAPAN INDEX FUND

31.54%

1993
RETURN*

*THROUGH OCTOBER

DATA: MANAGED ACCOUNT REPORT

advisers." The fund sponsors allocate a portion of the fund's assets to an adviser. Then, they routinely add or withdraw funds, depending on how the managers perform. In some instances, they may fire the fund managers altogether.

The multimanager approach has definite benefits: It enables the fund to tap different trading styles, invest in a wider array of markets, and spread risk among more than one investment manager. But investors sometimes find that the multimanager approach makes the investment decision more challenging. First, investors must learn what they can about the performance of each fund manager. They must also divine whether the fund manager is inclined to switch managers frequently or stick with them even through rough periods.

USE YOUR WEAPON. The managers are likely to practice one of two main trading approaches: system trading or discretionary trading. System traders mechanically rely on signals from computer programs they have designed to track market trends based on price changes, trading volume, and other factors. They excel in predictable markets but can get caught short when markets whipsaw. They did last year because of big losses in currencies and agricultural assets. Discretionary traders follow fundamental factors and pick their spots rather than take signals from a computer. When markets show a strong trend, they are prone to make more mistakes than their system-following brethren. Whatever the trading method, investors should look for the "standard deviation" or the amount of volatility the manager produces. Another key indicator: the fund manager's biggest "drawdown," or the biggest move from peak to valley throughout their trading careers. That measures how big a loss a trader may take before correcting mistakes. Such information is available in disclosure documents or can be obtained easily through firms that track managers.

The biggest decision investors make is choosing the individual trading adviser, says Sol Waksman, president of the Lay Trading Group. The second-best, that is, after the decision to get into what can be the rewarding but volatile world of futures.

By David Greising in Chicago

ACTION
Essential to
search the
performance of
the funds'
managers—and
how often
managers tend
to switch them

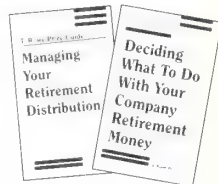
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A FIRM FOOTING AT LAST

Housing is on a roll, and even some commercial property is worth a look

After its rapid, fiery descent in the late 1980s and early 1990s, the real estate business almost seemed ready to close down for good. Fortunately, though, the industry is displaying strong signs of life. No one expects a dramatic takeoff, but for the first time in years, many real estate markets are stabilizing or even enjoying a recovery. The housing market is positively healthy, with falling interest rates fueling a climb in housing starts, sales, and even pricing in some areas.

There's good news in commercial real estate as well, with vacancies in many office buildings tapering off. And Wall Street is providing more ways than ever to invest in real estate and get some of the juiciest yields around. Investors just need to keep in mind that above-average rewards often involve above-average risks.

TENANTS' SMARTS. The biggest real estate returns in 1993 went to bottom-fishers. By snapping up properties in depressed sectors and either reselling them or packaging them into securities for resale, such "vulture investors" benefited handsomely. While few individuals are able to play the bottom-fishing game, investors that band together can. In 1990, Waad Nadhir and two other investors formed BOSC Group, based in Birmingham, Mich., to "use our very good skills learned as tenants searching for prime real estate for our stores... to buy quality properties that were, for us, at affordable prices," says Nadhir. Calling on their retail backgrounds in video and convenience stores and supermarkets, the investors have bought three shopping centers so far, in Detroit, Texas, and California. After rejuvenating the centers, they anticipate a return of at least 20% after a five-year period. But competition for properties is starting to drive up values, they say.

Multifamily housing in the Southwest was the most sought-after asset among value-hunters last year, says Paul C. Reilly, KPMG Peat Marwick's national director of real estate consulting. A bottoming out of apartment supply, the brighter economic picture, and renewal of a tax credit for building and renovating low-income

their hungry eyes elsewhere. "Office buildings and hotels are the least favored class of real estate, but a lot of people are sniffing around there," says John Stanfill, director of investment



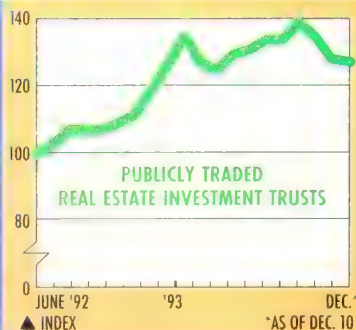
housing were behind much of the interest. And while the home runs may be gone, Reilly feels that "for people who want a constant yield... multifamily housing is still a good investment vehicle."

Many bottom-fishers are now casting

properties for Commercial Real Estate Group. He expects more interest in suburban office centers than in business districts of major cities. Stanfill notes that his firm recently bought office buildings in such districts. Investing along with the pension funds of major corporations, CB Commercial bought one office building in Detroit's business district on "very favorable terms," says Stanfill. "It seems on the surface a contrarian move, but... it's got a strategic location, quality tenants, it's well leased... and we agreed that it was a sane opportunity." Stanfill, who plans to fix up the property and sell to a more passive investor in three to five years, expects an annual return in the high teens. For those who would prefer investments that are more liquid, there are real estate investment trusts (REITs)—indeed, more than ever before. As of March 30, close to \$7.5 billion had been raised in initial public offerings of REITs and \$3.3 billion more in

A ROCKY ROAD FOR REITS

DATA: WILSHIRE ASSOCIATES INC.



equity offerings. REITs are created by developers, usually because they are strapped for cash and unable to find buyers. To stay afloat, they package properties into a REIT that can be sold through a public stock offering. Investors in the 178 publicly traded REITs can get yields that top 9%, although 6% to 7% is more common.

ING THE ROAD. All REITs are not created equal. While there are quality REITs with good properties and strong management, 1993's "rush to REIT," fueled by Wall Street's lust for fees and developers' desperation for capital, has produced REITs of questionable quality. Concerns over the growth prospects of REIT stocks has hurt their prices in re-

REIT that concentrates on industrial properties and yields about 8.25%. Sotter likes its focus on one specific property type—factory outlets—and the high level of insider ownership.

Another REIT bull is Barry Greenfield, portfolio manager of Fidelity's \$450 million Real Estate Fund. Greenfield expects investors to start focusing more on industrial and hotel REITs. He likes the RFS Hotel Investors Inc. offering, which yields about 8.5%. Beyond REIT stocks, he likes Host Marriott Corp. and La Quinta Inns Inc. A more speculative buy he is considering is Prime Motor Inns. His reasoning: "As the economy gets better, people are willing to travel more. And once occupancy gets past a certain

alters, notes that "as the economy has shifted into a lower-inflation mode, price growth in housing has settled down as well." Long term, he expects housing prices to rise at the rate of inflation plus a percentage point, or at about 4% in 1994.

Richard J. Loughlin, president of Century 21 Real Estate Corp., predicts that if home prices remain stable, interest rates stay low, and first-time buyers keep buying, 1994 could be the best year in residential real estate since the late 1970s. The hottest

markets are those where employment is rising or expected to rise: from the south-central U.S., starting with Texas, to the Rocky Mountains, up through Colorado and into Montana. Utah and Colorado even face a shortage of homes for sale. A few hundred miles away, in great contrast, is Southern California, a market that Loughlin thinks has bottomed out, though many others believe it has further to fall. And in the Northeast, a slow recovery has already begun.

Homebuilders have responded to the demand by getting out the hammers and nails. Single-family housing starts in 1993 reached about 1.1 million, compared with 1992's 1.04 million. Multifamily housing starts slid slightly, to 156,000, but are projected to rise to near 200,000 in 1994 as demand starts to outstrip supply. Some say it may be too late to buy building stocks. But Merrill Lynch building industry analyst Jonathan Goldfarb still sees opportunities. "In every postwar upcycle, prices of housing-sensitive stocks have never peaked until about the same time as housing starts," he says. And he doesn't think starts will peak until 1995 or 1996. A few of Goldfarb's picks: Owens Corning Fiberglass, the largest producer of fiberglass and residential roofing shingles in the U.S.; ABT Building Products Corp., which produces siding and specialized plastic building components; and homebuilders Lennar and Centex.

After years of comparisons to train wrecks and other disasters, the real estate market may merit a rosier vocabulary. To say real estate has recovered is stretching things. Let's just say that the real estate industry is now on firmer ground, which compared with the past few years, sounds awfully good.

By Suzanne Woolley in New York

ACTION

**Consider the
stocks of home-
builders for
their above-
average earn-
ings potential.
But be wary
of REITs**



months. Granted, the return for 1993 through November 30 was a robust 19.86%, according to an index of equity REITs created by the National Association of Real Estate Trusts in Washington, D.C. The index dipped 1.91% in October and another 5.42% in November. December is expected to be flat or down slightly.

Some portfolio managers see the correction as a warning shot to REIT investors that will create buying opportunities. "That these deals will have to be made and come out at competitive yields is something with terrific news for portfolio managers," says Dean Sotter, a portfolio manager for the \$110 million Chicago-based PRA Real Estate Fund. PRA has concentrated on economically sensitive investments and retail properties but plans to focus on discount centers as Michigan-based Horizon Outlets enters. PRA recently bought Chicago-based CenterPoint Properties Corp., a

mark, any improvement at all drops to the bottom line."

Some of the best news in real estate in 1993 was in the housing market, whose solid gains were fueled by falling mortgage rates. The rate on 30-year fixed mortgages slid in mid-October to 6.83%, close to a 28-year low. At the end of November, the average rate was 7.4%, compared with 8.21% a year earlier, and in mid-December, rates were hovering near 7.25%. The prolonged drop in rates in 1993 led to a record year in mortgage originations, says Paul S. Havemann, a vice-president with mortgage research firm HSH Associates in Butler, N.J. Low rates have sparked a massive wave of refinancings, with some homeowners refinancing two or three times.

Improved affordability drew many first-time buyers over the threshold. About 45% of home buyers last year were first-timers, compared with the usual one-third. John Tuccillo, economist for the Chicago-based National Association of Re-

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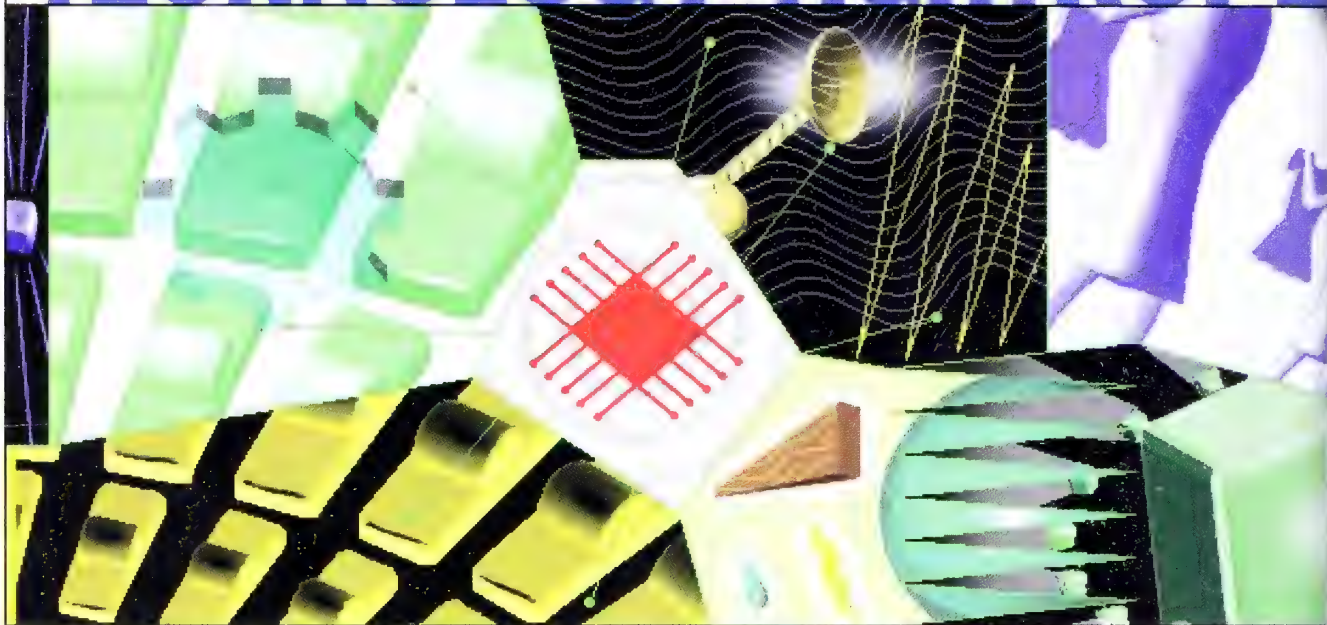
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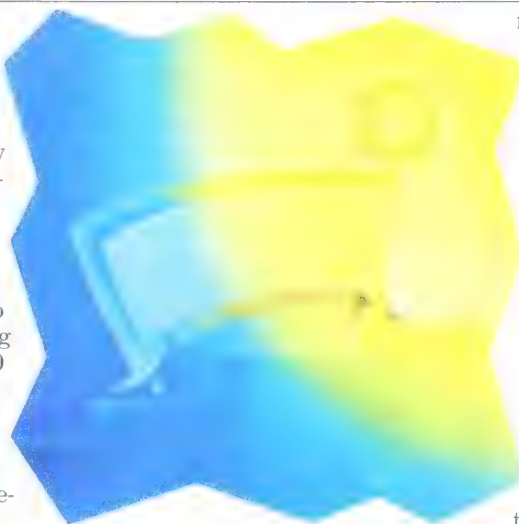
THE WHITE-KNUCKLE RIDE IS OVER

Forecasters see a year of modest but steady price improvement

If you don't like roller coasters, gold is not a good investment for you," says Bruce L. Lan, the president of Kaplan & a precious-metals consulting firm. d counsel at any time, but rarely e true than in 1993. After bottom-out at an seven-year low of \$326 ounce in March, gold prices rallied ng the spring and summer, hing a summit of \$409 in early ust. Then prices rapidly sank to in September before rebounding a more recent range between \$360 \$388. According to Morningstar precious-metals mutual funds, h are dominated by gold stocks, e posted total returns of 63% so his year, compared with a 16% de- last year and a 5% drop in 1991.

beyond these gyrations, however, sed goldbugs see the makings of a but steady increase in prices over next year or so, even without an rge in inflation. "I think you're see- he early days of a long-term recov- says Ian MacDonald, a precious ls analyst at Crédit Suisse. Adds ard Scott-Ram, the chief economist e World Gold Council's U.S. offices: coming time when the underper- ance of gold in recent years has to up to normality while the over- rmance of stocks and bonds is vul- e to having setbacks."

llish "bullionaires" point to improv- supply-and-demand fundamentals. e recent years, 1993 had no dra- negative shocks on the supply Mine production has been leveling nd, aside from Canada, which will about 120 metric tons by yearend, by major central banks around the l have eased up. Last year, Bel- and the Netherlands dumped more 600 metric tons of gold on the mar- to bolster their currencies, but the countries have since been quiet. "I believe central-bank selling is a threat for the coming year or says George Milling-Stanley, a pre- metals analyst at Lehman Bros. r does Russia seem capable of dam- the market, having exhausted of its gold reserves in a futile at-



tempt to prop up the old regime. Its mining equipment, further, is old and badly in need of repair. And the former Soviet Union is likely to use portions of its current supply to satisfy the hunger for gold jewelry of its own denizens.

SUMMER SQUALL. While global supply is holding fairly steady, demand is apparently on the rise again. In the U.S., jewelry and gold coins are increasingly on people's wish lists. Through the first nine months of 1993, the World Gold Council reported overall global demand of 1,817 metric tons, up 6% over last year. Developing markets in the Mid-east and Asia remain hot, though demand has softened lately, with China trying to cool down an overheating economy and reduce domestic supply.

These trends are showing up in the

markets. "It used to take a price as low as \$350 to trigger more incremental demand," says Lucille Palermo, manager of the Van Eck Gold/Resources Fund. "Now, it seems to be happening at \$370." Analysts question, though, whether demand can be sustained if prices squirt back above \$400 an ounce—especially if they spike too swiftly, as they did during the summer. Most prefer a scenario that would feature a slow and steady rise, culminating in above-\$400 gold prices again toward the middle of next year.

As the economic picture in the U.S. and elsewhere is brightening, so is the outlook for other precious metals—especially platinum and silver,

which, more than gold, depend on the fortunes of industry. Silver prices tend to bootstrap gold and haven't been hurt yet by a long-term dark cloud: the possibility that digital photography will partially or even largely supplant conventional methods that use silver. The metal recently sold for \$5.13 an ounce, down from an August high of \$5.44.

Platinum, a main component in catalytic converters, is being helped by a global boost in auto sales. The metal, which typically trades at a premium to gold, peaked at \$428 in early August. Recently, prices were around \$387. One bearish factor: the sticky recession in Japan. Japanese consumers are the main buyers of platinum jewelry.

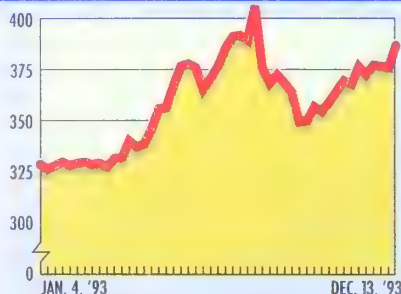
While some experts are bullish, few feel the sky's the limit. Even as the U.S. economy picks up steam, the kind of nasty double-digit inflation rates that propelled gold prices to \$875 an ounce 13 years ago seems highly unlikely. If there's anything gold fans have learned in recent years, it's not to be too greedy.

By Edward C. Baig in Washington

ACTION

Demand apparently is on the rise again, but don't expect prices much above \$400 any time soon

GOLD: ON A ROLLER COASTER



▲ DOLLARS PER OUNCE

DATA: BRIDGE INFORMATION SYSTEMS INC.

PRETTY AS A PICTURE? PRETTY MUCH

Slowly but steadily, artworks are regaining some glitter

On five nights in November, a hearty band of bottom-fishers ventured out to New York's big auctions of Impressionist, Modern, and contemporary art. The time seemed ripe—with prices for paintings, drawings, and sculptures leveling off after three years of decline—to snap up a few bargains. "There was nothing for them," says Diana D. Brooks, CEO of Sotheby's worldwide auction business. On lot after lot, spirited bidding lifted prices above the low presale estimates—and sometimes above the high estimates. Christie's and Sotheby's sold \$202 million worth of art, the best totals for these bell-weather auctions since 1990.

Compared with the white-hot stock market, the art world is temperate at best. Prices generally are at 1988 levels. Says Christopher J. Burge, CEO of Christie's in the Americas: "We're not rocketing upwards." But that makes it a hospitable place for buyers willing to accept the slow, steady growth forecast for 1994. Impressionist and Modern art shows the brightest near-term promise. **PICASSO POWER.** The whole market, though, has been buoyed by auctions. Both houses say the stock market's strength and low interest rates are spawning new buyers. Says Brooks: "We've had more new collectors this year than we've had in the last five years." Another good sign: Dealers are buying, suggesting that they have whittled down the massive inventories they have held since the market tanked.

Fittingly, Picasso, who after all revolutionized 20th century art, gets a lot of credit for changing the market's mindset. On Nov. 4, Sotheby's put a collection of 88 Picassos on the block—horri-fying many, who feared that so many works by one artist couldn't be absorbed at

one time. All 88 sold, fetching \$32 million and topping the high presale estimate of \$31 million. "Because of that, confidence really came back," says New York dealer James Goodman. "People aren't as worried that prices will drop, so they're willing to buy."

Before you join them, though, remember the caveats of the art market: Buy

"You can see that in the real strength works on paper, which are bought real collectors." And they often pun "flippers," who try to realize gains quickly, by spurning works publicly, making them even more difficult to sell.

With the market consolidating again, Burge says it's too early to predict which categories will grow fastest. But know

who's buying offers clues. U.S. buyers, many new to art, dominate—which helps explain the popularity of Impressionist and Modern (pre-World War II, 20th century) art: it's easily accessible and art-historically secure.

It's also available at more price levels. At New York's Jan Krugier Gallery, prices begin at \$150,000 for a Picasso drawing and rise to \$23 million for a painting of his sister. *Deux Enfants Assis* is tagged at \$4 million. Goodman is offering a similar painting by Miró, the subject of a huge show at New York's Museum of Modern Art, for \$400,000. Elsewhere, \$30,000 might get you a Japanese drawing, say, or painting by a lesser Impressionist. **OLDIES.** For now, no one seems worried by the vast number of paintings the Japanese bought in the '80s, which might flood the market, given the economic woes of many Japanese tycoons. Sources say some \$500 million of this art is sitting in the vaults of Japanese banks that repossessed it. They're holding on to most of it, waiting for prices to rebound.

Contemporary art hasn't quite caught up with Impressionist and Modern art, although some prices are improving a bit. Experts say they won't really start to rise unless and until auctioneers see good sales next spring. So far, the market is most solid for what Diane Kruger, right, Christie's contemporary expert, calls "the classic golden oldies"—Win-



PICASSO'S *DEUX ENFANTS ASSIS*, TAGGED AT \$4 MILLION

because you love something, not to speculate. Know what you're purchasing, and buy the best you can afford. If you need liquidity, don't buy art. All but the best works can be hard to sell when the market isn't booming. In today's market, one clear, across-the-board trend is that collectors, not investors, predominate. "Buyers are more serious about the quality of paintings," Brooks says.

Kooning, Jackson Pollock, and the Abstract Expressionists. The verdict on more recent artists, the "youngsters" like Julian Schnabel, isn't in. It's too early to buy their classic images.

The market is slow and steady for traditional American art, such as

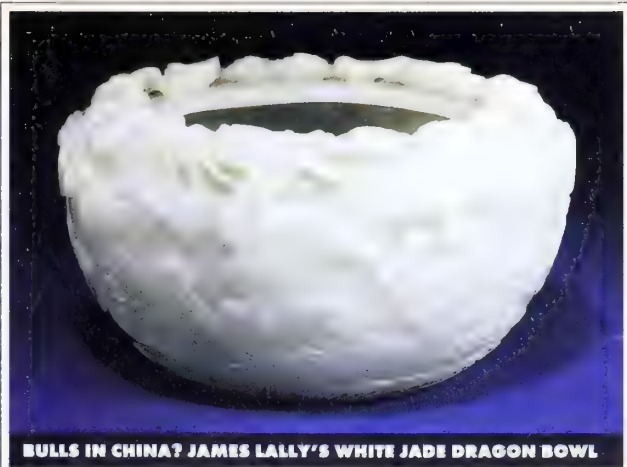
Hudson River School. Old Masters have a wider following in Europe than the

U.S., and the market is mixed: Italy's art fairs have prompted its buyers to back, yet their steady buying last year kept prices firm. Latin American isn't as robust as it was two years ago, either, but it's better than it was in 1992. Although collectors in many South American countries have retreated, Mexicans still are in the market in big numbers. The North American Free Trade Agreement should keep them there—bringing Latin American art a good bet. "I can get a very good painting for \$100 to \$10,000," says dealer Marye Martin. "It's not a field reserved for millionaires."

The outlook on buyers from Asia is more troubled: Japanese, Korean, and Taiwanese collectors have cut back dramatically. The auction houses predict resurgence in Europe and Latin America before Asia—even, Burge believes, the former East bloc.

SERIAL TREASURES. Still, the vast wealth that's accumulating in Asia is likely to set trends in the art market at some point. And that suggests a new area for collectors with a long-term view: Chinese art. Newly wealthy here and overseas Chinese are starting to buy these paintings, jade, porcelains, ceramics, and bronze vessels, which have been of interest to a small number of knowledgeable connoisseurs. "I says New York dealer James J. M.," there's interest building among Americans and Europeans, many with long business ties to the area.

Already, prices are rising for jade, particularly pure white jade and bright green jadeite pieces, Lally says. He's selling \$85,000 for a carved white jade dragon bowl, for example. As the East opens, Chinese art is likely to experience a phenomenon peculiar to the art world: As pieces get more expensive, more people get interested, and prices go up. That'll take time. Sotheby's believes Chinese works "will show strong growth in the next 10 years, not in the next year or so." And Chinese art isn't for the uninitiated. Minor firing flaws in porcelain, for example, can render a piece worthless. Impe-



BULLS IN CHINA? JAMES LALLY'S WHITE JADE DRAGON BOWL

rial pieces—made for an emperor or at least for the palace—are the safest buys.

Another area with potential is contemporary design: glass, ceramics, fibers, and jewelry that rise above craft. Dealers handling these media are sprouting, and a few painting dealers, such as Charles Cowles and Max Protech in New

York, include some of these artists in their stables. The auctioneers have mounted a few separate design sales, too. Lakeside Group, which holds a "new art forms" fair in Chicago, says attendance at the October show rose 15%, to 18,000.

Easy entry is the advantage: Although a Dale Chihuly glass chandelier at Cowles' gallery costs \$100,000 to \$150,000, you can buy pieces by other artists for \$1,000 or so. The disadvantage: Growing interest doesn't always mean growing prices. Photography, for example, regarded as a boom area a few years back, hasn't met expectations.

For the overall art market, though, the picture looks brighter than it has in years. Sotheby's stock is selling around \$15 vs. a 52-week low of \$10.75. Christie's is going in London for 227 pence vs. a '93 low of 144. It's not just collectors who are again buying into art.

By Judith H. Dobrzynski in New York

ROBERT MNUCHIN

FROM EQUITIES TO EXPRESSIONISTS

To art world regulars, Robert E. Mnuchin is a familiar figure. The former Goldman, Sachs & Co. partner—who pioneered institutional-equity trading in the 1960s and retired as co-head of trading in 1990, at 56—has been buying art most of his life. He and his wife, Adriana, started out with a Picasso print and ended up with dozens of paintings by Rothko, Still, Marden, Twombly, and Johns that are worth millions. "The prime force is—I love it," he blurts out over breakfast in a coffee shop on New York's Upper East Side.

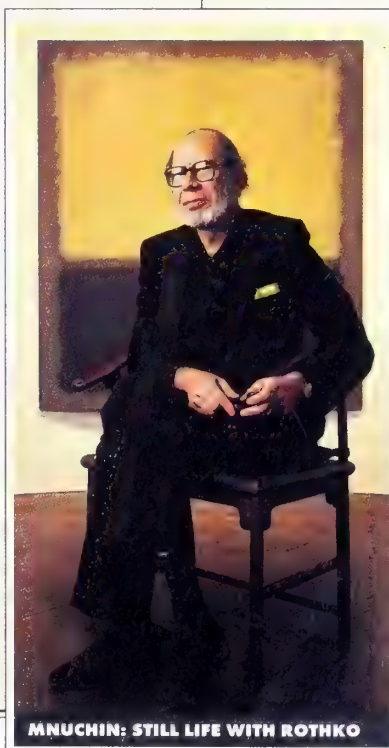
Mnuchin has run out of room at home for those Abstract Expressionist paintings, but he hasn't stopped buying. The "coach," as he was known at Goldman, is now buying them for others. Last January, he and art dealer James Corcoran opened C&M Arts. "I always had a yen to do it," he says. "I knew art and the pricing, and that's been confirmed"—C&M Arts is

turning a profit, though he won't give numbers.

Mnuchin is also the No. 1 investor in a limited partnership he began raising money for a year ago, "when the mood was terrible," to invest in seven-figure works by the same artists. Again, Mnuchin claims he's in the money: The fund "earned an attractive rate of return" in 1993, which he will probably match in '94. "These artists are [selling] at levels that have a significant floor underneath them," he says.

Mnuchin's third new foray, the 24-room Mayflower Inn and conference center in Connecticut, isn't yet in the black. But that's not stopping the couple's art adventures. Adriana, a trustee of the Whitney Museum, now collects photographs, particularly female nudes. As for Mnuchin, "I have my fix hunting paintings for C&M," he says.

By Judith H. Dobrzynski in New York



MNUCHIN: STILL LIFE WITH ROTHKO



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1993'S
BEST AND
WORST**BREATHING EASY**

▲ After insurers picked up the tab for asbestos-related injury suits, Fibreboard's stock skyrocketed

GOOD CONNECTIONS

◀ Cellular Technical Services' shares went into orbit after it made deals with Sprint and McCaw Cellular

WHAT DO WORK BOOTS AND ISTANBUL HAVE IN COMMON?

Timberland's footwear and Turkey's fledgling bourse are among the year's hottest investments

No question about it: 1993 had a lot of drama, and it wasn't only from the market's new highs in December. Rags turned to riches, riches to rags. Oddball companies such as Fibreboard and Cellular Technical Services dribbled along, only to take off thanks to some pivotal event such as a legal settlement or contract announcement. Meanwhile, companies such as British transportation giant Tiphook and a California real estate investment trust plunged when bad judgment, bad times, or both set things askew. As for the funds, some of the top performers, such as gold funds, were likely one-time wonders. Meanwhile, stodgy old lumber stole the commodities crown. Here's the scoop:

STOCKS

BEST NYSE STOCK. Timberland Co.'s sturdy work boots and clothes have always been fashionable with outdoorsy types.

But a sudden swing in footwear fashion, away from athletic shoes to the rugged look, has sent the now trendy boot-maker's fortunes soaring and its stock up 280%. Timberland stock started the year at 19¢, well above the minimum \$5 a share benchmark for BUSINESS WEEK's best and worst awards. Net earnings surged by an estimated 78%, to \$23 million, on a 47% sales jump, to \$427 million. Next year, analyst Steven B. Frankel of Adams, Harkness & Hill Inc. in Boston, sees a 60% leap in profits.

The Hampton (N.H.) company, controlled by the Swartz family, was plagued by erratic customer service and high costs until new Chief Operating Officer Jeffrey B. Swartz, 33, cut costs—and prices—while improving deliveries and giving marketing a good swift boot.

WORST NYSE STOCK. Tiphook PLC is a high-flying container-leasing and transport-

rental company that grew too fast, caught in the global recession, crashed with a bang, its stock falling 100%.

Despite these woes, Tiphook's public statements were upbeat. It issued three times early this year. But sooner that, it announced a pretax loss of \$33 million on sales of \$490 million the year ended Mar. 31. The company blamed the losses on interest swaps and foreign exchange hedging, but may also have to sell its vital container division, and it faces insider-trading allegations and shareholder lawsuits.

BEST AMEX STOCK. When John D. H. took over as chief executive of Fibreboard Corp. in 1991 after a shareholder revolt ousted the previous manager, the wood-products company set out to head for the buzz saw. It was plagued by weak operations and billions of dollars of asbestos-related suits. Roach axed

CRUISING OVERSEAS

◀ Bond-fund manager Simon Nocera scored by focusing on debt in countries making big financial reforms

LUMBER'S WILD RIDE

▼ Wood prices sank early—then soared, thanks to low rates, warm weather, and an improving economy



A WORKING OUTFIT

► Timberland's duds are suddenly trendy, and the company's earnings are mega-trending upward

s, whittled staff, and spruced up management. But investors stayed wary last August, when Fibreboard set- with its insurers. They agreed to \$3 billion in claims filed by some 10 people allegedly injured by asbestos- products Fibreboard made decades lifting that burden freed the under- value of Roach's turnaround, and oak jumped 358%.

AMEX STOCK. Investors in *An- Participating Mortgage Trust* had a year. The real estate investment—which held mortgages on three centers—stopped paying dividends its debt-laden parent, Angeles which owned the outlets, default- the mortgages in February. An- Corp. is now mired in bankruptcy edings. But this may not be the f the Angeles Trust: A company swoman says it is liquidating, yet ate group is buying up shares. In arket, even sickly REITs may get nd chance.

TC STOCK. No matter that *Cellular cal Services Co.* has been losing for years. When news broke this at the obscure telecommunications ny had pending contracts with gi- print Corp. and McCaw Cellular unications Inc., CTSC went into or- aring 395%. makes software that collects real-

time data on customer usage for cellular companies, a vast improvement over cur- rent systems. The losses stem from con- verting the research and development company into a strong marketer, says Chief Financial Officer Michael E. McConnell. CTSC should make money in '94, claims Seth Margoshus, an analyst at Whales Securities Co.—which underwrote the company's 1991 initial public offer- ing. Margoshus sees CTSC as a pivotal tollbooth on the electronic highway, col- lecting regular fees from some 200 mil- lion wireless subscribers by the year 2000. But McConnell isn't making any predictions until contracts are finalized.

WORST OTC STOCK. *S. K. Technologies Corp.* stock barely squeaked by with its NASDAQ listing—it usually delists stocks trading below \$1—after slipping 93%. The Boca Raton (Fla.) maker of cash- register software systems was in “very deep financial trouble” when CEO Calvin S. Shoemaker took over in May. He says the software “had more bugs than it should have.” Shoemaker now claims to have stabilized the company and extermin- ated the bugs.

BEST STOCK GROUP. Is gold-mining finally panning out? It led the industry pack with a rise of 66.6%, according to Stan- dard & Poor's Corp. Last summer's run- up to more than \$400 an ounce looked like a brief love affair when the metal

slunk back to about \$340 by fall. But prices have revived to range from \$360 to \$388 an ounce. Analysts attribute this to an improved balance between supply and demand (page 131). Investors dazzled by gold's showing should realize that gold stocks are much more volatile than the metal itself. That's because any price rise above production costs is pure profit to miners. Stocks also presage a fall in the metal, a little like the canary in the mine.

WORST STOCK GROUP. President Clinton's health-care plan has clearly made the health sector ill. The prospect of pro- longed political debate has paralyzed it like—to steal T. S. Eliot's phrase—“a pa- tient etherized upon a table.” Nursing homes and drug companies led the losers in the Standard & Poor's 500-stock index. Medical-technology companies were the worst laggards according to Bridge Infor- mation Systems Inc. Doctors on a budget are sure to forgo pricey gadgets. Pre- scription drugmakers also face a bleak prognosis. But some issues are healthier. Analysts say nursing homes could repre- sent a salutary buying opportunity since more people are living longer.

PEOPLE

BEST EQUITIES FUND MANAGER. *Caesar M. P. Bryan* had the golden touch in 1993. His concentrated play in South



TURKISH DELIGHT

▲ Istanbul's bourse is the world's hottest overseas market—and there's still plenty of room for growth

THE DEALER WINS

◀ Onetime blackjack ace Thomas Shanks made some smart bets on commodities in London, Paris, Sydney, and Singapore

African gold mines caused his \$47 million Lexington Strategic Investments to jump 235%. Gold's buoyancy was crucial, but he says it helped to snap up smaller and less cost-efficient mines forsaken during the bear market, at fire-sale prices. But this is one volatile fund. Not only is it concentrated in a single country, but 50% of fund assets are in the top five holdings. Investors who are willing to play high stakes have to take the bad with the good. Says Caesar: "A lot of the great return for this year was a mirror image of the bear market in '92."

BEST BOND FUND MANAGER. *Simon Nocera's* \$94 million G.T. Global High Income A fund soared 93% by investing in emerging-market debt. Emerging markets are hot this year, but not just any one will do. "There's so much euphoria about emerging markets, the more exotic you can be, the better," says Nocera, "but that's the wrong attitude."

What's most important, he says, is the fundamentals of the individual country. He closely examines factors such as inflation, unemployment, and government policy before buying only those countries that are clearly on the road to economic reform. Some faves: Argentina, Mexico, Poland, and Morocco. Why debt and not equity? Nocera explains that bonds precede stocks in the process of stabilizing an economy. Sounds

pretty risky, but Nocera insists that with at most 15% of assets in any market, "the volatility is minor."

BEST COMMODITIES FUND MANAGER. For years, *Thomas Shanks* scraped by playing blackjack. Tired of the hand-to-mouth existence, he flew to Chicago and signed up as a trainee with legendary commodities trader Richard Dennis, whose technique focuses on market timing according to price signals.

In 1993, it paid off—in spades. Shanks's Chicago-based Hawksbill Capital Management earned a 103% return on the \$106 million it manages for 25 different accounts. Last year, Shanks invested mostly overseas, making money on foreign interest-rate futures contracts in London, Paris, Sydney, and Singapore. Still, Shanks knows he may not be able to do it again. He is wary of "the hubris that the markets love to slap down."

MARKETS

BEST OVERSEAS MARKET. The Istanbul Stock Market is no turkey. It reigns as this year's hottest emerging-markets play, up some 80% in dollar terms. Istanbul is much larger than most bourses in Asia and Latin America, and it lists 160 stocks with a market cap of \$35 billion. And with daily trading at about \$90 million, it's more liquid than most markets.

Will the feast last? "We're looking for 10% growth in corporate profits in 1994, which is down from 35% this year," says Emre Yigit, head of research at Istanbul's largest broker, Global Securities. But he says that with the economy growing and stocks at seven times estimated 1994 earnings, there's lots of room on the upside.

BEST COMMODITIES MARKET. What spotted owls, low interest rates, a growing economy, and warm weather have in common? They made lumber one commodity, with prices up more than 50% after a roller-coaster year.

Environmental concerns such as a campaign to reduce logging to save the northern spotted owl and low demand drove inventories to near-record lows and prices down to \$284.70 per thousand board feet. But then housing starts perked up and lumber prices peaked at \$493.50 in the spring. "Wholesalers were in a hot-to-mouth supply situation. We had no panic buying," says William B. O'Neil, futures strategist for Merrill Lynch & Co. Prices fell in June but rebounded as the economy recovered and warm weather extended the building season. Prices hit \$461 before settling near \$450. Prices may rebound again if rates fall and environmentalists active.

By Pam Black in New York, David Greising in Chicago and by reports

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FINDING GEMS IN '94 WILL TAKE A KEEN EYE

The experts say gains will be spotty. So here are data on some 900 companies to aid your search

The stock market hit a number of record highs this year, thanks mostly to strong earnings performance. And it looks as if profits will be rising in 1994, buoyed by continued corporate restructurings and an improving economy. "It will be a good earnings environment, and that is a positive sign in the equity market outlook," says Richard D. Rippe, chief economist at Prudential Securities Inc. Rippe predicts that earnings will rise 16% to 17% this year. That would compare with the expected earnings gain (adjusted for price-offs) for the Standard & Poor's stock index of 15%.

But some economists and portfolio analysts are worried that the market is overvalued, with increased speculation. Most experts agree that 1994 will be a good year for the market, though gains will be spotty, with many groups not participating in the up-movement. "The upside potential in the overall market is limited, so you have to be careful not to make any mistakes," says A. Johnson, chief investment officer at First Albany. To help you find winners, BUSINESS WEEK has compiled its annual Investment Outlook Yearbook.

LEADERSHIP IN STEEL. The following pages provide a wide array of financial data on 900 publicly traded companies put together by Standard & Poor's Compustat, a division of McGraw-Hill Inc. The data is divided into 24 industries, from aerospace to utilities. To make the evaluations easier, it provides historical data and investment ratios, such as dividend yield and book value per share.

The Scoreboard also helps investors evaluate the performance of individual companies and stock groups using I/B/E/S, a unit of Citicorp that surveys the opinions of 2,500 securities analysts and publishes annual earnings forecasts for each company. They predict a 26% earnings increase in 1994 vs. 1993's 29%. Anyway, the steel industry is likely to be the biggest earnings improvement. Biggest disappointments, according to the survey, could come in the printing and advertising industry group.

Since many investors are interested in specific company information, BUSINESS WEEK has sifted through piles of statistics to select stocks that satisfy the requirements of six popular investment strategies (tables, page 144). One key approach: Target companies most likely to have big increases in earnings per share.

For the 900 companies, the largest profit increase in 1994—517%—is forecast for Lafarge Corp., a Virginia-based construction-materials company that is benefiting from rising cement prices. It's a good idea for investors to peek be-

hind the per-share gains because the number of outstanding shares for any given company can change from quarter to quarter.

High yields are another useful measure. But investors should be careful because yield, which measures the dividend as a percent of the stock price, can be deceptively high if a company's share price has fallen dramatically. Investors should also be aware of other quirks. For instance, Manville Corp., a Denver-based holding company, is expected to show the highest yield in 1993. But that's based on a special dividend,

WHAT THE ANALYSTS EXPECT: INDUSTRY GROUP WINNERS AND LOSERS

1993'S STRONGEST...

	Earnings change from 1992
APPLIANCES	155%
CONGLOMERATES	130
SEMICONDUCTORS	110
TEXTILES	100
TELECOMMUNICATIONS SERVICES	94
OIL & GAS	86
AUTO PARTS & EQUIPMENT	80
APPAREL	79
SPECIAL MACHINERY	75
INSTRUMENTS	73

1994'S STRONGEST...

	Earnings change from 1993
STEEL	844%
PAPER CONTAINERS	406
CARS & TRUCKS	256
FOREST PRODUCTS	171
MISCELLANEOUS LEISURE	122
PAPER	109
COAL	61
EATING PLACES	58
NONFERROUS METALS	55
SPECIAL MACHINERY	49

...AND WEAKEST

SAVINGS & LOANS	-88%
PAPER CONTAINERS	-79
COAL	-35
MISCELLANEOUS LEISURE	-33
TOBACCO	-22
RETAILING	-11
AEROSPACE & DEFENSE	-11
GLASS CONTAINERS	-10
CHEMICALS	-4
PERSONAL CARE	-3

...AND WEAKEST

PRINTING & ADVERTISING	2%
ELECTRIC UTILITIES	3
BANKS—MIDWEST	7
TELEPHONE COMPANIES	8
DRUGS & RESEARCH	10
FINANCIAL SERVICES	10
GAS UTILITIES	12
BANKS—SOUTH & SOUTHEAST	12
BANKS—EAST	12
CONSTRUCTION & ENGINEERING	12

Because of actual or estimated losses in 1992, 1993, or 1994, earnings gains or losses cannot be meaningfully calculated on a percentage basis for airlines, aluminum producers, auto makers, computer manufacturers, forest products companies, nonferrous metal manufacturers, and steelmakers

DATA: I/B/E/S INC., STANDARD & POOR'S COMPUSTAT

EARNINGS OUTLOOK

and Manville's dividend policy in 1994 is unclear.

Stockpickers sometimes find great deals in stocks selling way below their per-share book value—the difference between assets and liabilities divided by the number of shares outstanding. But it's important to determine whether or not these companies are merely overlooked or are in serious financial trouble. For example, Glendale Federal Bank tops the list, but the California-based

thrift is beset by a slew of bad loans.

Price-earnings ratios can be another helpful tool when searching for places to invest. A low p-e multiple might signify that a company is struggling with short-term bad news and could reward patient investors when the trouble passes. But it's not so easy to pinpoint which companies may actually turn the corner. America West Airlines Inc. is expected to have the lowest p-e ratio next year. But the company is in Chapter 11.

Analysts say that although the airline's performance has improved greatly, stock is risky because the shares likely to be worthless when the company reorganizes.

The Scoreboard offers basic guidelines to help investors, but that's only a starting point. After that, smart stockpickers will need to dig deeper—hope for a bit of luck.

By Lori Bongiorno, with Frederick Jespersen, in New York

A MENU OF INVESTMENT OPPORTUNITIES

But be careful. Though the numbers below may seem enticing, unusually high or low percentages may be a sign of trouble.

HIGH HOPES FOR EARNINGS PER SHARE

Looking at the bottom line? These companies' earnings are forecast to move smartly in 1994.

Percent change 1993-94

	Percent change 1993-94
LAFARGE	517%
ADVO	381
OCCIDENTAL PETROLEUM	350
CROWN CENTRAL PETROLEUM	326
GEON	320
CNA FINANCIAL	319
GEORGIA-PACIFIC	315
RAYCHEM	305
LYONDELL PETROCHEMICAL	300
RIVERWOOD INTERNATIONAL	284
TRAVELERS	264
PERKIN-ELMER	256

STOCKS SELLING WAY BELOW BOOK VALUE

Bargain hunters take note. The stock price of these companies as a percentage of book is at the bottom.

Percent

	Percent
GLENDAL FEDERAL BANK	32%
CALIFORNIA FEDERAL BANK	35
CROWN CENTRAL PETROLEUM	43
GM HUGHES ELECTRONICS	46
SEQUA	50
IMO INDUSTRIES	54
ACTAVA GROUP	57
ASARCO	61
COAST SAVINGS FINANCIAL	62
OSHKOSH TRUCK	64
FIGGIE INTERNATIONAL	65
INTERGRAPH	67

COMPANIES WITH THE HIGHEST YIELD

If the goal is income, these companies pay among the highest annual dividends as a percentage of stock price.

Percent

	Percent
MANVILLE	12.6%
CENTERIOR ENERGY	11.3
OKLAHOMA GAS & ELECTRIC	7.7
NORTHEAST UTILITIES	7.5
LONG ISLAND LIGHTING	7.5
NEW YORK STATE ELECTRIC & GAS	7.3
FREEPORT-McMORAN	7.3
TEXAS UTILITIES	7.2
SCCORP	7.0
OHIO EDISON	6.7
PUBLIC SERVICE CO. OF COLORADO	6.7
FPL GROUP	6.7

STOCKS THE INSTITUTIONS RARELY HOLD

Unpopular—or just overlooked? Either way, if the institutions suddenly take notice, prices could rise.

Percent of shares held by institutions

Number of institutions holding

	Percent of shares held by institutions	Number of institutions holding
CONTINENTAL AIRLINES	0.1%	7
MARRIOTT INTERNATIONAL	1	9
AT&T CAPITAL	2	14
AMERICA WEST AIRLINES	2	15
FOOD LION	4	65
U.S. HOME	5	19
FOXMEYER	7	31
VIACOM	7	116
ARCO CHEMICAL	8	96
KAISER ALUMINUM	9	27
SPIEGEL	9	65
MITCHELL ENERGY & DEVELOP.	9	74
AVERAGE OF 900 COMPANIES	56%	276

THE LOWEST PRICE-EARNINGS RATIOS

Prices of these stocks compared with 1994 forecast for earnings per share suggest unrecognized values. Negative earnings-per-share estimates excluded.

Ratio

	Ratio
AMERICA WEST AIRLINES	0.7
ALLIANT TECHSYSTEMS	5.5
ADVANCED MICRO DEVICES	6.3
FIRST AMERICAN FINANCIAL	6.4
MIDLANTIC	6.7
HOOK-SUPERX	6.8
FLEET MORTGAGE GROUP	6.8
CONTINENTAL BANK	6.9
BANK OF BOSTON	6.9
MICRON TECHNOLOGY	7.0
BEAR STEARNS	7.1
STANDARD FEDERAL BANK	7.3

FORECASTERS AGREE LEAST ABOUT THESE COMPANIES

Uncertainty could spell opportunity. The 1994 earnings-per-share estimates are all over the lot for these stocks. Example: Estimates for Champion International range from a profit of 49¢ to a loss of 53¢.

Consensus for 1994
Cents per share

Variation
in forecasts

	Consensus for 1994 Cents per share	Variation in forecasts
CHAMPION INTERNATIONAL	-2	2,550%
TIME WARNER	-1	2,400
ASARCO	-12	1,383
AMDAHL	2	950
MAXTOR	11	818
IMC FERTILIZER GROUP	16	556
DATA GENERAL	12	442
FLAGSTAR	-18	372
KAISER ALUMINUM	-26	285
ZENITH ELECTRONICS	-50	282
DELTA AIR LINES	81	267
McCAW CELLULAR COMMUNS.	30	217

DATA AS OF NOV. 30, 1/8/E/S, STANDARD & POOR'S COMPUSTAT

INVESTMENT OUTLOOK SCOREBOARD

1994

ESSARY

Number of the month in which company's year ends.

Value per share: Sum of common at nominal balance-sheet value, capital, and retained earnings as shown in any accounts, divided by number of shares outstanding.

P/E ratio: Nov. 30 stock price divided by latest 1993 earnings.

Dividend rate: Indicated annual payment based on latest quarterly dividend plus recurring extra or special yearend dividends.

Yield: Indicated annual dividend as a percent of Nov. 30 stock price.

Shares outstanding: Millions of common shares outstanding as of company's latest available financial report, excluding treasury shares.

Market value: Percentage change in total market value of the company's most widely held common-stock issue since Jan. 1, 1993.

Institutional holdings: Percentage of outstanding common shares held by banks, insurance and investment companies, colleges, and pension funds, and the number of such institutions.

Turnover: Percentage of outstanding shares changing hands in 1993.

Earnings per share: Primary earnings per share—net income (including proceeds from certain convertible securities, warrants, and

options that are common-stock equivalents, but excluding extraordinary profit or loss items) divided by number of common and common-equivalent shares.

Earnings per share estimates: Analysts' consensus estimates for 1993 and 1994 compiled by I/B/E/S Inc., New York, N.Y. I/B/E/S is a registered trademark of I/B/E/S Inc. Trend estimate, based on pattern of past five years, compiled by Standard & Poor's Compustat.

Variation: The percentage by which two-thirds of the 1994 earnings estimates are above or below the average estimate. The lower this figure is, the more analysts agree on their estimates.

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1993	INSTITUTIONAL		1993 TURN- OVER %	1992 ACTUAL	I/B/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYSTS	
								MARKET VALUE CHANGE %	%	NUMBER					I/B/E/S CON- SENSUS	VARIA- TION %
INDUSTRY AVERAGE		55	25	22	0.76	2.11	106.5	17	56	276	79.5	1.81	2.34	2.94	2.96	15.2
ROSPACE & DEFENSE																
INDUSTRY AVERAGE		47	31	12	1.15	2.46	68.5	24	60	262	64.3	4.01	3.56	5.30	4.17	11.9
ing Corp	12	39	26	11	1.00	2.59	340.0	-4	45	675	61.7	4.57	3.60	5.91	2.37	11.0
Corp	11	14	7	11	0.60	4.32	31.7	23	51	134	72.7	0.70	1.27	1.03	1.43	5.6
eral Dynamics	12	90	36	15	2.40(c)	2.67	31.1	-13	50	250	66.7	6.59	6.17	6.17	6.28	6.5
nman	12	40	26	12	1.20	2.98	34.7	70	44	209	62.2	3.49	3.40	3.86	3.66	5.5
heed	12	70	37	11	2.12	3.02	62.3	27	96	317	40.8	5.65	6.58	9.39	6.91	2.6
tin Marietta	12	41	19	11	0.90	2.20	95.7	20	72	379	50.6	3.61	3.81	3.92	4.22	3.1
onnell Douglas	12	109	91	10	1.40	1.28	39.3	127	45	251	122.5	17.97	10.97	14.06	12.08	7.0
throp	12	38	28	10	1.60	4.21	48.9	15	63	236	50.3	2.56	3.96	2.99	4.48	6.3
r	07	9	10	NM	0.00	0.00	18.0	-25	57	61	67.0	0.08	-1.71*	NA	0.55	23.6
Ja	12	31	62	NM	0.00	0.00	9.7	-3	39	69	32.7	1.53	-0.85	NA	1.88	66.0
strand	12	40	14	17	1.20	3.00	35.0	-4	75	182	78.5	2.31	2.41	2.18	2.74	8.0
kai	06	25	19	8	0.68	2.73	19.9	47	70	139	70.9	3.12	3.13*	NA	3.03	2.0
ed Technologies	12	62	28	18	1.80	2.91	125.0	30	78	503	59.7	-0.05	3.50	3.49	4.53	8.2
TOMOTIVE																
INDUSTRY AVERAGE		40	15	18	0.72	1.86	132.0	38	54	314	77.4	0.46	1.90	1.60	3.27	10.5
TRUCKS																
INDUSTRY AVERAGE		45	18	17	0.80	2.12	275.9	55	46	445	76.9	-1.48	1.17	1.61	4.17	17.5
slor	12	53	18	10	0.60	1.14	352.1	96	69	618	150.3	1.47	5.21	2.23	6.62	10.4
Motor	12	61	32	16	1.60	2.63	497.4	44	59	803	71.2	-1.46	3.78	2.19	5.74	11.3
eral Motors	12	53	9	27	0.80	1.52	712.0	65	45	842	76.4	-4.85	1.94	NA	4.52	17.3
istar International	10	25	2	NM	0.00	0.00	51.2	125	29	174	74.2	-7.00	-8.63*	NA	1.68	40.5
osh Truck	09	9	14	15	0.50	5.48	8.7	-15	30	36	34.8	1.01	0.59*	0.29	0.93	10.8
ar	12	67	33	16	1.30	1.94	33.8	17	44	196	54.2	1.93	4.11	1.72	5.53	15.0
ES & EQUIPMENT																
INDUSTRY AVERAGE		37	14	18	0.74	1.92	41.0	39	60	212	79.4	1.23	2.22	1.29	2.77	7.5
n Industries	12	26	19	15	0.76	2.88	22.1	-12	56	151	100.4	1.70	1.79	2.11	2.22	9.9
mins Engine	12	47	15	11	0.50	1.06	34.8	22	66	236	136.8	1.77	4.44	NA	5.27	8.4
a	12	55	16	20	1.60	2.92	46.2	17	74	324	59.3	0.98	2.77	0.82	3.75	8.8
n	12	50	15	17	1.20(c)	2.41	69.9	23	61	330	48.8	1.99	2.99	1.78	3.54	9.0
n	08	33	12	21	0.70	2.11	58.8	45	79	322	67.5	1.15	1.60*	1.33	1.87	3.7
ral-Mogul	12	26	10	25	0.48	1.86	29.4	108	61	134	92.6	-0.01	1.02	0.57	1.64	6.7
oTech	12	24	12	25	0.02	0.08	50.1	78	17	79	82.0	0.48	0.96	0.68	1.48	9.5
dard Products	06	32	13	14	0.64	2.03	16.6	34	64	117	47.5	1.79	2.21*	1.72	2.35	3.8

Notes: *Actual, not estimated data. NA = not available. NM = not meaningful. (a) Shares outstanding as of fiscal yearend. (b) Actual and estimated EPS figures are fully diluted. (c) rate excludes a nonrecurring extra or special yearend dividend. (d) Company pays a recurring stock dividend. Data compiled by Standard & Poor's Compustat, a division of McGraw-Hill. Data from such sources as statistical services, newspapers, registration statements, and company reports that SPC believes to be reliable but that are not guaranteed by either SPC or McGraw-Hill. WEEK as to correctness or completeness. This material is not an offer to buy or sell any security. Additional data: I/B/E/S, Vickers Stock Research Corp.

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVIDEND RATE	YIELD %	SHRS OUT. MILLS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	1993 TURN-OVER %	1992 ACTUAL	1993 I/B/E/S ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALYST CONSENSUS	VA TIO
(c) TIME & RUBBER															
GROUP AVERAGE		40	12	17	0.49	1.17	86.8	-2	53	328	73.4	2.29	2.48	2.31	2.82
Bandag	12	54	13	18	0.65	1.20	27.1	-8	23	161	26.9	2.99	2.96	3.23	3.23
Cooper Tire & Rubber	12	23	6	18	0.22	0.97	83.6	-33	63	311	105.1	1.30	1.25	1.68	1.45
Goodyear Tire & Rubber	12	45	16	14	0.60	1.35	149.8	35	73	512	88.3	2.57	3.23	2.01	3.78
3 BANKS															
INDUSTRY AVERAGE		38	25	10	1.22	3.25	120.0	9	56	323	70.1	2.84	3.87	3.50	4.30
(a) BANKS - EAST															
GROUP AVERAGE		39	27	10	1.17	2.90	122.1	15	58	349	87.1	3.33	4.10	4.19	4.60
Bank of Boston	12	22	22	9	0.40	1.84	105.5	6	54	327	116.8	2.10	2.53	2.08	3.17
Bank of New York	12	56	39	10	1.80(c)	3.24	93.5	19	75	397	84.4	4.23(b)	5.53	5.01	6.44
Bankers Trust New York	12	77	50	7	3.12	4.08	81.5	10	76	482	63.5	8.82	11.08	10.29	10.22
Chase Manhattan	12	34	34	9	1.20	3.58	183.6	38	64	425	123.1	3.46	3.91	2.28	4.58
Chemical Banking	12	39	36	8	1.32	3.43	252.3	2	72	596	98.2	3.90	4.90	1.19	5.35
Citicorp	12	36	25	11	0.00	0.00	379.1	65	64	516	134.4	1.35	3.31	1.64	4.19
CoreStates Financial	12	26	16	9	1.20	4.71	117.2	-10	66	338	102.6	2.27	2.79	2.39	3.03
First Fidelity Bancorporation	12	42	30	9	1.48	3.53	79.7	2	43	291	51.9	3.89	4.56	9.89	5.13
Fleet Financial Group	12	30	22	10	1.20	3.97	136.9	3	62	319	64.1	1.78	2.95	1.49	3.62
Integra Financial	12	46	26	10	1.40	3.08	33.6	45	44	127	34.4	4.54	4.40	5.02	4.82
KeyCorp	12	35	22	9	1.24	3.56	98.3	22	53	328	57.7	3.17	3.82	4.13	4.33
Mellon Bank	12	56	42	10	1.52	2.74	63.8	22	60	336	79.5	6.96	5.35	7.65	6.41
Meridian Bancorp	12	30	20	11	1.28	4.28	57.3	18	33	163	79.0	2.55	2.73	2.70	3.15
Midlantic	12	24	19	10	0.00	0.00	52.1	35	46	155	188.1	0.08	2.45	0.27	3.60
Morgan (J. P.)	12	71	40	9	2.40	3.39	198.9	12	63	806	61.2	6.92	7.75	7.75	7.33
PNC Bank	12	30	18	10	1.28	4.32	234.2	5	59	440	33.6	2.36	2.98	2.32	3.25
Republic New York	12	46	36	9	1.08	2.37	52.7	-2	53	174	35.4	4.42	5.01	9.99	5.50
Shawmut National	12	21	16	10	0.40	1.92	94.3	16	62	281	110.3	0.60	2.06	NA	2.80
State Street Boston	12	38	14	16	0.52	1.37	75.5	-13	70	314	132.3	2.07(b)	2.30	2.66	2.60
UJB Financial	12	24	18	15	0.64	2.65	51.5	1	39	162	92.4	1.09	1.64	0.77	2.47
(b) BANKS - MIDWEST															
GROUP AVERAGE		32	20	10	1.07	3.45	124.7	2	53	289	51.4	1.99	3.27	2.80	3.50
Banc One	12	37	19	11	1.24	3.32	341.0	3	53	655	48.9	2.62	3.30	3.53	3.70
Boatmen's Bancshares	12	29	20	9	1.24	4.31	98.0	4	49	286	83.1	2.26	3.08	3.59	3.32
Comerica	12	27	19	10	1.12	4.13	119.0	-17	56	299	63.8	1.91(b)	2.85	2.69	3.27
Continental Bank	12	25	28	7	0.60	2.40	51.8	11	68	169	110.9	3.44	3.50	2.58	3.62
Fifth Third Bancorp	12	50	18	15	1.08	2.16	60.0	-7	45	166	21.7	2.75	3.24	3.53	3.70
First Bank System	12	29	18	11	1.00	3.49	113.2	23	59	247	42.8	1.14(b)	2.66	2.30	3.25
First Chicago	12	41	39	6	1.60	3.87	86.6	18	67	320	84.5	-2.08	7.02	2.95	5.64
First of America Bank	12	39	24	10	1.60	4.09	57.1	4	33	205	22.4	2.85(b)	4.10	3.72	4.53
Firststar	12	30	18	10	1.04	3.47	64.3	-4	41	158	20.4	2.62	3.14	2.95	3.44
Huntington Bancshares	12	23	12	10	0.80	3.50	98.8	29	19	159	40.1	1.64	2.31	2.13	2.61
National City	12	24	16	10	1.08	4.57	158.2	-5	73	313	46.6	2.10	2.42	2.26	2.70
NBD Bancorp	12	29	20	10	1.08	3.71	160.6	-11	45	332	22.1	2.11	3.01	2.77	3.29
Northern Trust	12	38	18	13	0.74	1.95	53.1	-9	70	207	64.4	2.64	2.97	2.96	3.36
Norwest	12	23	11	11	0.66	2.89	290.8	7	68	507	49.5	1.42	2.11	1.89	2.42
Society	12	29	17	9	1.12	3.90	117.1	-9	45	308	49.5	2.51	3.29	2.20	3.62
(c) BANKS - SOUTH & SOUTHEAST															
GROUP AVERAGE		36	23	10	1.25	3.50	114.9	7	51	319	61.5	2.73	3.56	2.90	3.99
AmSouth Bancorporation	12	30	22	9	1.16	3.93	43.9	-1	48	151	42.9	2.55	3.19	3.10	3.40
Barnett Banks	12	41	26	10	1.44	3.48	97.4	1	53	387	67.1	1.98	3.99	2.14	4.65
Crestar Financial	12	39	28	11	1.32	3.38	37.8	4	45	195	119.2	2.32	3.58	2.14	4.25
First Union	12	41	30	9	1.60	3.94	168.0	15	58	503	59.6	3.72	4.70	4.49	5.09
NationsBank	12	47	34	9	1.68	3.57	255.6	-7	59	619	61.4	4.60	5.09	3.48	5.72
Signet Banking	12	32	16	11	1.00	3.10	56.5	45	57	194	97.4	1.96	2.99	2.12	3.37
SouthTrust	12	17	13	9	0.60	3.48	77.6	7	41	156	46.6	1.66	1.94	2.04	2.12
SunTrust Banks	12	44	23	12	1.28	2.92	125.3	1	54	334	24.9	3.28	3.76	3.94	4.19
Wachovia	12	32	17	11	1.20	3.74	172.0	-6	44	331	34.2	2.48(b)	2.80	2.61	3.08
(d) BANKS - WEST & SOUTHWEST															
GROUP AVERAGE		52	37	10	1.68	3.53	108.8	12	69	328	73.4	3.49	5.04	3.96	5.81
Bancorp Hawaii	12	41	31	9	1.38	3.36	28.3	-6	64	194	43.1	4.12	4.59	4.91	5.07
BankAmerica	12	45	39	9	1.40	3.15	357.3	-2	61	693	80.8	4.24	4.78	5.52	5.41
First Interstate Bancorp	12	58	41	9	2.00	3.43	77.0	28	84	403	109.8	3.23	6.50	6.84	7.26
U. S. Bancorp	12	24	16	10	0.88	3.63	99.4	-8	54	279	62.1	2.05	2.47	2.69	2.69
Union Bank	12	28	31	12	1.40	5.05	35.1	2	80	39	28.4	2.87	2.34	2.24	2.68
Wells Fargo	12	118	63	12	3.00	2.55	55.8	56	68	361	116.4	4.44	9.56	1.58	11.77
4 CHEMICALS															
INDUSTRY AVERAGE		41	15	25	1.11	2.75	85.5	3	63	281	60.3	1.77	1.70	1.95	2.40
Air Products & Chemicals	09	44	19	25	0.92	2.09	114.1	-6	79	480	54.6	2.45	1.76*	2.10	2.68
American Cyanamid	12	53	17	14	1.75	3.33	89.9	-9	67	537	69.7	4.35	3.85	4.03	4.23
Arco Chemical	12	41	17	20	2.50	6.10	96.0	-6	8	96	7.4	2.05	2.05	1.41	2.60
Betz Laboratories	12	42	11	18	1.40	3.33	28.5	-32	68	254	66.4	2.71	2.34	2.99	2.53
Cabot	09	53	25	29	1.04	1.96	18.6	22	63	146	57.4	3.18	1.80*	2.12	3.46
Dexter	12	23	13	16	0.88	3.79	24.3	-10	77	111	40.0	1.58	1.41	1.45	1.61
Dow Chemical	12	58	30	26	2.60	4.47	274.1	2	54	747	46.2	0.99	2.20	0.95	2.94

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVID- END RATE	YIELD %	SHRS OUT- MILS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS		1993 TURN- OVER	1992 ACTUAL	1/8/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	1994 ESTIMATES	
									%	NUMBER					FROM ANALYSTS	VARI- ATION %
Montgomery Ward	12	48	16	19	1.76	3.69	677.2	2	41	830	29.5	1.43	2.57	1.71	3.27	5.8
Montgomery Ward	12	24	7	22	0.44	1.83	96.1	2	53	233	38.9	1.00	1.10	1.23	1.38	5.8
Montgomery Ward	12	18	6	19	0.60	3.31	118.4	-37	48	314	41.1	2.27	0.96	1.29	1.18	5.9
Montgomery Ward	12	31	11	17	0.54	1.76	29.1	14	82	176	91.3	1.90	1.81	0.73	2.10	2.9
Port-McMoRan (H. B.)	12	17	1	NM	1.25	7.30	141.0	-1	60	240	42.6	1.17	-0.27	NA	0.51	60.8
Port-McMoRan	11	33	19	16	0.56	1.68	13.9	-17	54	113	122.6	2.55	2.12	2.75	2.46	4.9
Port-McMoRan	12	23	9	78	0.50	2.15	26.3	NA	36	40	NA	-0.92	0.30	NA	1.26	27.0
Port-McMoRan	12	21	-3	21	0.00	0.00	40.6	-5	70	128	104.5	1.18	1.02	0.55	1.50	12.7
Port-McMoRan (B. F.)	12	44	29	51	2.20	5.04	25.7	-11	87	225	71.2	-0.69	0.86	0.58	2.43	18.9
Port-McMoRan (W. R.)	12	39	13	15	1.40	3.59	93.3	1	75	340	58.4	0.88	2.57	1.57	3.03	3.3
Port-McMoRan Lakes Chemical	12	75	17	19	0.36	0.48	71.2	7	77	483	58.9	3.27	3.83	4.49	4.47	2.7
Port-McMoRan (M. A.)	12	31	18	22	0.75	2.43	23.6	8	85	131	48.8	1.37	1.39	1.01	1.69	4.1
Port-McMoRan Fertilizer Group	12	107	35	24	2.24	2.09	41.7	62	83	358	70.6	3.69	4.51	4.17	5.26	3.8
Port-McMoRan Fertilizer Group	06	38	17	NM	0.00	0.00	22.1	-10	94	144	127.3	4.12	-5.44*	NA	0.16	556.3
Port-McMoRan Flavors & Fragrances	12	110	25	21	3.00	2.74	37.7	-1	60	434	38.8	4.59	5.32	5.67	5.92	1.4
Port-McMoRan Flavors & Fragrances	12	38	10	19	0.80	2.13	35.4	-19	43	166	36.1	1.99	1.97	2.42	2.16	1.9
Port-McMoRan Fertilizer Group	12	32	11	18	0.88	2.75	67.2	15	68	315	67.9	1.81	1.75	1.94	2.13	4.2
Port-McMoRan Fertilizer Group	12	20	-1	91	0.90	4.47	80.0	-18	37	130	45.5	0.32	0.22	0.10	0.88	42.0
Port-McMoRan Fertilizer Group	12	68	26	18	2.32	3.41	118.7	16	73	603	64.0	-1.01	3.77	2.96	4.59	7.0
Port-McMoRan Fertilizer Group	06	93	25	36	1.12	1.20	48.9	54	69	405	68.3	2.95	2.57*	2.98	4.28	3.7
Port-McMoRan Chemical	12	37	8	19	0.90	2.41	68.9	6	66	337	48.7	1.90	1.94	2.17	2.14	3.3
Port-McMoRan Chemical	12	45	36	28	2.20	4.89	19.1	-1	58	136	37.5	2.17	1.58	1.33	2.24	7.1
Port-McMoRan Chemical	12	16	5	15	0.25	1.55	133.9	-2	67	298	72.2	0.64	1.05	NA	1.22	5.7
Port-McMoRan Chemical	12	54	19	21	1.40	2.57	67.6	2	72	280	36.7	2.53	2.65	2.35	3.18	6.0
Port-McMoRan Chemical	08	29	10	22	0.32	1.12	29.9	0	64	147	78.6	1.48	1.30*	1.64	1.53	4.6
Port-McMoRan Chemical Industries	12	6	4	18	0.08	1.45	69.3	16	23	53	19.9	0.15	0.31	0.17	0.50	8.0
Port-McMoRan Chemical Industries	12	21	10	22	0.75	3.59	151.6	43	55	333	104.9	0.76	0.97	0.50	1.33	18.0
Port-McMoRan Chemical Industries	12	18	16	12	0.20	1.13	32.7	-17	87	182	83.0	1.60	1.42	1.51	1.42	19.7
Port-McMoRan Chemical Industries	12	30	15	18	1.00	3.32	50.5	36	80	181	59.9	1.19	1.64	1.57	1.95	5.1

CONGLOMERATES

STRY AVERAGE		41	17	18	0.92	2.24	115.1	69	59	326	89.8	0.96	2.21	2.28	2.96	8.6
va Group	12	8	14	17	0.36	4.72	17.6	-34	32	54	43.8	0.64	0.46	0.33	0.75	20.0
Standard	09	49	18	NM	1.00	2.05	47.0	36	51	268	58.8	2.22	-0.04*	NA	2.87	4.2
dSignal	12	71	18	15	1.16	1.63	141.7	17	68	546	52.1	3.80	4.64	4.65	5.28	3.0
ic Industries	12	16	-9	14	0.00	0.00	69.9	-16	97	117	32.6	1.11	1.17	NA	1.40	7.1
e International	12	38	9	15	1.12	2.92	46.0	-10	53	233	51.2	0.64	2.61	0.74	3.18	2.8
eral Electric	12	13	20	29	0.24	1.85	18.7	-22	55	70	45.5	1.61	0.45	0.53	1.33	8.3
ourt General	12	98	29	16	2.52	2.56	852.9	15	55	1352	27.7	5.02	5.99	6.35	6.62	1.7
	10	41	14	20	0.60	1.47	76.5	12	56	297	43.2	1.44	2.06	2.04	2.23	3.6
	12	26	13	NM	0.00	0.00	33.0	32	51	82	53.2	-2.26	-0.15	NA	0.88	54.5
	12	89	63	13	1.98	2.22	118.1	23	73	612	49.5	-2.47	6.62	6.73	7.97	3.9
	12	15	7	NM	0.00	0.00	52.1	NM	17	40	909.7	-0.90	-0.86	NA	0.99	13.1
	12	24	11	16	1.25	5.26	43.5	5	52	256	59.0	1.41	1.51	1.40	1.67	1.8
	07	19	5	28	0.32	1.68	116.1	-5	64	340	46.0	0.77	0.68*	0.82	0.96	4.2
	12	30	36	20	0.84	2.78	47.3	24	77	136	52.3	1.32	1.49	1.32	1.90	4.2
	12	78	24	16	1.12	1.43	31.8	92	76	291	78.1	0.14	4.86	0.96	5.68	6.3
	09	35	13	14	1.00	2.87	220.4	21	53	415	32.8	2.16	2.55*	2.20	2.84	8.1
	12	25	5	19	0.80	3.22	55.4	22	44	199	49.1	0.83	1.33	0.59	2.05	18.0
	12	48	15	20	1.60	3.32	169.4	39	68	528	64.7	-4.85	2.47	NA	3.43	6.7
	12	55	31	13	1.24	2.25	87.6	23	67	384	43.1	3.66	4.22	4.25	4.76	1.5
	12	66	24	20	1.88	2.86	64.1	17	52	362	55.3	3.09	3.34	2.91	4.27	5.9
	12	16	5	16	0.30	1.89	107.1	8	72	265	37.6	0.86	1.00	0.68	1.15	1.7

CONSUMER PRODUCTS

STRY AVERAGE		34	11	24	0.73	1.88	150.2	6	54	294	72.2	1.48	1.93	2.40	2.37	11.8
REL																
IP AVERAGE		32	14	16	0.52	1.47	48.4	-6	65	239	82.7	1.32	2.36	2.72	2.75	7.4
n Group	01	33	16	16	1.60	4.85	17.5	18	49	162	40.4	0.27	2.04	0.69	2.33	5.2
of the Loom	12	33	13	13	0.00	0.00	75.7	-32	73	289	134.9	2.48(b)	2.58	3.09	3.03	5.0
marx	11	7	3	35	0.00	0.00	31.9	35	37	116	46.9	-8.59	0.20	NA	0.42	26.2
wood	04	38	21	15	0.80	2.11	13.9	42	85	132	55.7	2.08	2.55	2.14	2.94	5.4
laiborne	12	24	12	15	0.45	1.90	80.9	-45	72	378	125.8	2.61	1.60	2.49	1.83	12.0
	05	48	23	11	0.80	1.67	75.6	-42	47	377	109.7	4.74	4.33	5.80	4.87	5.3
ps-Van Heusen	01	34	8	21	0.15	0.44	26.1	20	70	154	60.5	1.42	1.60	1.94	1.99	1.5
ok International	12	31	10	12	0.30	0.98	84.9	-15	68	325	101.1	1.24	2.57	2.39	2.90	3.8
ell	12	28	14	15	0.40	1.44	40.8	-11	49	202	37.8	1.99	1.92	2.04	2.13	8.0
	12	44	23	12	1.20	2.75	64.4	-11	84	379	92.6	3.97	3.73	3.92	4.11	4.6
aco Group	12	30	7	11	0.00	0.00	20.2	-24	77	120	104.7	2.35	2.80	NA	3.74	4.5

FINANCES & HOME FURNISHINGS

IP AVERAGE		29	10	21	0.41	1.24	54.0	35	51	181	82.3	0.51	1.30	1.49	1.72	23.6
Strong World Industries	12	46	16	21	1.20	2.62	37.2	44	80	273	76.0	-2.03	2.20	1.43	2.78	11.2
Buy	02	50	13	27	0.00	0.00	20.8	134	68	112	344.9	1.14	1.83	2.69	2.43	7.8
it City Stores	02	25	6	18	0.08	0.32	96.0	0	83	385	119.5	1.15	1.43	1.40	1.72	3.5
g-Meyers	02	35	8	34	0.20	0.57	48.0	82	89	221	65.7	0.84	1.04	1.14	1.24	2.4
co	12	14	6	16	0.00	0.00	50.0	NA	16	43	27.3	3.55	0.87	NA	1.12	7.1
all International	06	31	16	22	0.84	2.69	21.2	16	26	66	23.9	1.83	1.44*	1.54	2.01	1.5
Boy Chair	04	34	15	18	0.68	2.01	18.3	31	21	75	20.2	1.50	1.89	1.67	2.19	6.4

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Berger 101 Fund	1 Year 26.5%	3 Years 29.4%	5 Years 16.6%	10 Years 12.6%	15 Years 13.2%	19 Years** 14.3%

Source: Lipper Analytical Services, Inc.

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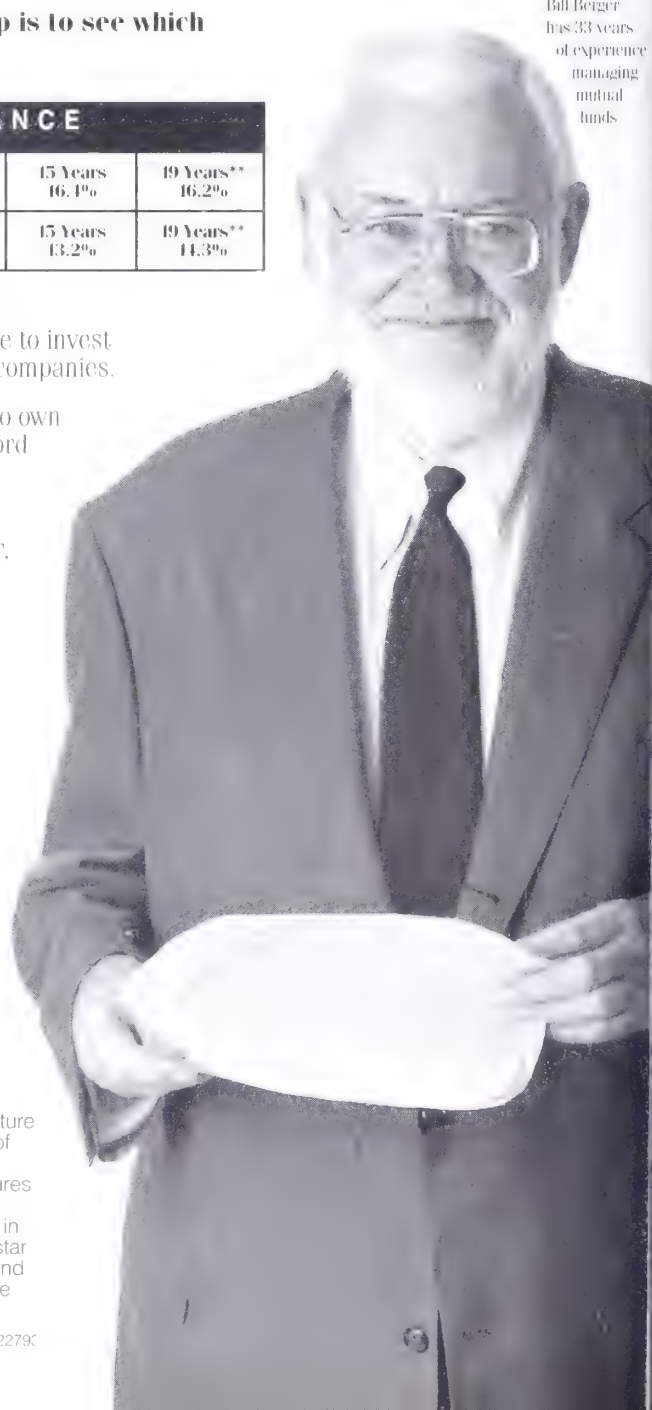
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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST.	1993 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1993	INSTITUTIONAL HOLDINGS %	1993 TURN- OVER %	1992 ACTUAL	1993	ON 5-YEAR TREND	1994 ESTIMATES		
								MARKET VALUE CHANGE %				ANALYST EST		FROM ANALYSTS 1/8/E/S CON- SENSUS	VARI- ATION %	
gett & Platt	12	42	12	21	0.56	1.33	40.2	31	57	222	33.1	1.64	2.05	1.92	2.47	3.2
itz Furniture	03	14	-2	15	0.00	0.00	29.6	NA	16	19	NA	-1.27	0.94	NA	1.43	5.6
sco	12	34	13	23	0.68	2.00	152.8	15	65	429	59.8	1.21	1.49	0.77	1.96	7.7
ntag	12	16	5	19	0.50	3.13	107.2	8	53	262	54.4	-0.08	0.83	0.59	1.11	7.2
1 Imports	02	11	6	15	0.10	0.93	37.4	-13	49	112	133.3	0.62	0.71	0.62	0.83	3.6
beam-Oster	12	20	7	20	0.04	0.20	85.9	17	23	87	34.5	0.79	1.00	NA	1.22	1.6
pool	07	25	12	23	0.48	1.96	12.3	49	56	88	63.3	-1.98	1.05*	0.76	1.35	24.4
ith Electronics	12	59	22	16	1.22	2.05	72.4	38	85	389	79.2	2.90	3.70	3.31	4.23	2.8
	12	8	5	NA	0.00	0.00	34.1	44	35	120	99.0	-3.59	-1.70	NA	-0.50	282.0
ERAGES																
UP AVERAGE		38	10	35	0.88	1.92	328.2	16	44	401	47.3	1.52	2.03	2.54	2.38	7.8
euser-Busch	12	49	16	14	1.44	2.92	268.5	-19	57	635	47.1	3.48	3.56	4.00	3.93	1.8
wn-Forman	04	76	30	13	2.84	3.76	27.6	-8	44	205	13.6	5.65	5.64	6.22	6.27	3.0
a-Cola	12	42	3	25	0.68	1.62	1299.0	0	53	890	25.5	1.43	1.68	2.02	1.99	2.0
a-Cola Bottling Consolidated	12	39	4	24	0.88	2.24	9.3	118	18	38	60.7	-0.23	1.61	NA	2.05	3.9
a-Cola Enterprises	12	15	10	132	0.05	0.34	129.2	18	36	110	18.1	-0.11	0.11	0.08	0.25	28.0
rs (Adolph)	12	17	19	24	0.50	2.88	38.2	7	34	159	71.4	0.95	0.73	0.74	1.07	16.8
pepper/Seven-Up	12	23	-7	26	0.00	0.00	59.9	NA	53	125	97.9	-0.60	0.88	NA	1.10	4.5
siCo	12	40	7	20	0.64	1.59	794.3	-4	59	1046	43.9	1.61	2.01	2.19	2.34	2.6
SONAL CARE																
UP AVERAGE		45	11	38	1.09	2.35	130.8	-6	57	373	61.6	2.36	2.29	2.71	2.89	3.5
erto-Culver	09	22	10	15	0.26	1.21	28.8	-16	20	124	13.7	1.36	1.44*	1.50	1.59	1.3
n Products	12	50	3	14	1.80	3.61	72.1	-10	78	402	88.2	2.43	3.51	3.81	3.94	3.3
ox	06	52	16	17	1.80	3.46	54.2	11	52	346	46.0	2.17	3.07*	2.10	3.32	1.5
gate-Palmolive	12	59	13	18	1.44	2.43	150.9	0	65	664	81.5	2.92	3.34	3.20	3.80	2.9
ab	12	45	12	19	0.76	1.70	31.5	21	50	191	22.4	2.05	2.40	3.60	2.71	1.8
ite	12	63	7	24	0.84	1.34	220.5	10	70	694	58.2	2.32	2.66	3.14	3.11	1.6
ne Curtis Industries	02	27	20	18	0.24	0.91	9.9	-36	40	62	71.7	2.33	1.48	1.76	1.86	8.6
ter & Gamble	06	57	11	227	1.24	2.19	682.4	6	47	838	30.1	2.62	0.25*	0.68	3.17	3.8
horne	12	33	13	15	1.00	3.01	19.4	-6	67	115	47.5	2.32	2.25	2.40	2.45	4.9
brands	12	42	3	17	1.52	3.62	38.5	-36	77	290	156.6	3.09	2.53	4.89	2.92	5.5
ACCO																
UP AVERAGE		27	12	13	1.08	3.26	354.4	-28	47	405	77.3	2.65	2.08	3.10	2.49	8.1
frican Brands	12	34	21	10	1.97	5.73	201.7	-15	54	514	55.1	4.29	3.45	4.27	3.59	7.8
ell Brothers	06	25	12	9	0.72	2.85	13.3	-42	44	100	140.2	2.31	2.87*	3.43	2.51	6.0
p Morris	12	56	14	12	2.60	4.64	876.7	-29	52	1233	78.1	5.45	4.68	6.52	5.24	2.5
Nabisco Holdings	12	7	7	19	0.00	0.00	1137.3	-24	23	294	63.6	0.55	0.34	0.12	0.45	15.6
ard Commercial	03	16	15	NM	0.40	2.58	8.5	-52	33	44	87.6	2.40	-0.80	NA	1.38	18.1
ersal	06	26	11	11	0.88	3.43	35.6	-19	68	194	55.4	2.15	2.39*	2.30	2.39	4.6
	12	27	2	17	0.96	3.57	207.7	-17	54	456	61.3	1.41	1.61	1.94	1.87	2.1
NTAINERS & PACKAGING																
STRY AVERAGE		24	13	30	0.50	1.90	65.8	-4	49	192	59.0	1.02	0.54	1.30	1.12	13.3
SS, METAL & PLASTIC																
UP AVERAGE		26	14	18	0.41	1.44	79.0	1	55	210	56.5	1.60	1.44	2.06	1.85	4.9
wn Cork & Seal	12	29	21	23	1.24	4.31	29.4	-10	64	217	68.0	2.21	1.25	1.86	1.97	6.1
ns-Illinois	12	40	14	19	0.00	0.00	88.6	2	50	294	49.0	1.79	2.08	2.26	2.42	3.3
	12	11	5	11	0.00	0.00	119.0	11	51	119	52.6	0.81	0.99	NA	1.15	5.2
ER																
UP AVERAGE		23	13	36	0.53	2.10	60.2	-6	47	184	60.0	0.77	0.16	1.00	0.81	16.9
is	12	23	7	20	0.50	2.22	51.2	-10	45	192	25.9	1.11	1.12	1.28	1.29	5.4
ral Paper Board	12	22	22	36	1.00	4.52	42.0	-10	66	236	79.8	1.77(b)	0.61	0.65	1.16	19.0
view Fibre	10	22	8	25	0.52(c)	2.42	51.9	17	40	135	35.4	0.62	0.87	0.44	1.31	11.5
rwood International	12	15	8	80	0.16	1.05	62.1	11	20	61	16.5	0.78	0.19	NA	0.73	27.4
co Products	12	21	7	16	0.54	2.53	87.4	-10	33	186	37.8	0.94	1.36	1.12	1.51	4.6
ie Container	12	11	9	NM	0.00	0.00	71.2	-35	46	174	165.2	-2.49	-4.43	NA	-2.67	35.6
ple-Inland	12	51	31	37	1.00	1.98	55.4	-2	76	302	59.6	2.65	1.38	1.51	2.32	15.1
ICOUNT & FASHION RETAILING																
STRY AVERAGE		28	11	20	0.36	1.24	139.3	10	54	248	89.1	1.66	1.47	1.84	1.82	7.6
Zone	08	56	5	47	0.00	0.00	71.8	44	33	149	40.0	0.87	1.18*	1.77	1.46	2.1
lees	01	15	12	9	0.60	3.93	11.3	-16	75	69	109.2	2.16	1.74	NA	2.04	7.4
ington Coat Factory	06	22	8	21	0.00	0.00	40.6	51	36	101	37.4	0.78	1.05*	1.04	1.25	1.6
or	01	31	16	12	0.00	0.00	16.5	21	88	96	123.4	2.54	2.67	6.90	3.31	2.1
er Hawley Hale Stores	01	12	10	NM	0.00	0.00	46.7	80	12	34	60.3	28.10	-0.73	NA	0.76	27.6
ming Shoppes	01	14	5	18	0.09	0.67	102.7	-25	63	269	230.0	0.75	0.75	0.92	0.91	6.6
olidated Stores	01	21	5	22	0.00	0.00	46.3	18	88	184	99.5	0.78	0.95	0.88	1.18	3.4
on Hudson	01	71	35	15	1.60	2.24	71.5	-6	80	461	88.7	5.02	4.79	5.12	5.70	5.4
rd Department Stores	01	41	17	18	0.08	0.19	112.8	-16	72	422	90.0	2.11	2.32	2.73	2.73	3.3
ar General	01	23	5	22	0.20	0.86	41.4	31	58	143	137.6	0.84	1.08	1.40	1.29	4.7
on Brothers Stores	01	32	19	18	1.24	3.92	22.1	-28	52	137	48.8	3.27	1.74	2.51	2.25	11.6
. Distributors	01	8	7	9	0.00	0.00	9.6	-67	32	31	126.6	1.25	0.82	NA	1.00	9.0
ily Dollar Stores	08	17	6	15	0.30	1.79	56.4	-29	60	165	62.2	1.00	1.15*	1.39	1.30	0.8
rated Department Stores	01	22	17	16	0.00	0.00	126.3	11	90	291	129.5	1.19	1.40	NA	1.72	2.9
erhut	12	26	9	18	0.16	0.62	46.1	73	97	209	103.5	1.19	1.48	1.66	1.72	2.3

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The Lincoln Town Car Two-Year Lease

STANDARD FEATURES

- Remarkably quiet ride
- 4.6-liter V-8 engine
- Sequential multi-port electronic fuel injection
- Dual air bags*
- Six-way power driver and passenger seats
- Four-wheel disc anti-lock brakes
- Remote illuminated keyless entry system
- CFC-free electronic automatic climate control
- Rear four-bar link suspension with air springs

\$499

PER MONTH, 24 MONTHS LEASE†

Refundable security deposit	\$500
Down payment	\$1,900
First month's payment	\$499
Cash due at lease inception	\$2,899**

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LINCOLN

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†Lease payment based on average capitalized cost of 91.17% Town Car MSRP for 24-month closed-end Ford Credit Red Carpet leases purchased in the U.S. from Sept. 1 to Oct. 31, 1993. Some payments higher, some lower. See dealer for payment and terms. Payment may be higher in AK, CT, KY, MA, MO, NC, RI, TX, and WV. For special lease terms, take new retail delivery from dealer stock by 1/10/94. Lessee may have option to buy vehicle at lease end at a price negotiated with the dealer at signing. Lessee is responsible for excess wear/tear and \$.11 per mile over 30,000 miles. Credit approval/insurability determined by Ford Credit. Total of monthly payments is \$11,976. **Excludes tax, title and other fees. *Driver and right-front passenger Supplemental Restraint System. Always wear your safety belt.

INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	PE RATIO 1993 EST	1993 DIVIDEND RATE	YIELD %	SHRS OUT MILS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS %	1993 TURN-OVER %	1992 ACTUAL	1993 ANALYST EST.	BASED ON 5-YEAR TREND	1994 ESTIMATES	
														FROM ANALYSTS	VARIATION %
									NUMBER					I/B/E/S CONSENSUS	
Wm. W. Brown	01	40	7	25	0.40	1.00	144.9	22	35	360	91.5	1.47	1.62	1.94	4.1
Wm. W. Brown	12	3	4	NM	0.00	0.00	25.7	-31	44	54	84.5	0.24	-0.10	0.32	34.4
Wm. W. Brown	01	11	12	16	0.16	1.52	42.0	6	35	89	92.4	-0.63	0.66	0.81	13.6
Wm. W. Brown	01	42	6	40	0.12	0.29	448.1	-17	54	683	80.6	0.82	1.04	1.37	2.2
Wm. W. Brown	12	15	2	83	0.00	0.00	93.3	92	32	100	169.8	0.42	0.18	0.28	13.7
Wm. W. Brown	01	24	15	13	0.96	4.06	408.1	-3	68	677	79.3	2.06	1.82	2.15	5.2
Wm. W. Brown	01	47	6	32	0.00	0.00	36.6	64	72	150	57.2	0.88	1.48	1.82	8.8
Wm. W. Brown	01	41	9	19	0.20	0.48	18.0	45	19	85	46.4	1.85	2.17	1.99	2.9
Wm. W. Brown	01	23	6	19	0.36	1.59	363.0	-16	49	517	70.2	1.25	1.17	1.46	10.4
Wm. W. Brown	01	51	11	32	0.32	0.62	73.6	114	54	271	90.0	1.16	1.59	0.79	7.7
Wm. W. Brown	01	42	13	16	0.92	2.17	248.4	20	71	614	46.7	2.36	2.67	2.78	2.0
Wm. W. Brown	12	41	19	12	1.52	3.71	105.3	-22	82	446	47.5	1.34	3.45	2.21	4.2
Wm. W. Brown	01	36	35	15	1.02	2.83	36.8	-1	38	219	29.6	2.36	2.35	2.07	4.4
Wm. W. Brown	01	6	4	33	0.05	0.91	53.9	-62	62	133	144.6	0.71	0.18	0.38	33.9
Wm. W. Brown	01	35	19	14	0.00	0.00	26.3	16	44	119	37.9	2.21	2.48	2.63	3.8
Wm. W. Brown	07	18	1	23	0.20	1.12	37.9	-3	29	56	12.5	-0.21	0.78*	NA	16.1
Wm. W. Brown	01	35	13	21	0.34	0.96	82.0	-9	42	258	145.1	1.67	1.67	1.74	7.7
Wm. W. Brown	11	13	9	14	0.00	0.00	39.5	NA	70	72	NA	-2.10	0.95	NA	5.0
Wm. W. Brown	01	53	20	15	1.44	2.70	235.6	38	86	670	63.0	3.16	3.51	2.47	4.1
Wm. W. Brown	01	26	9	25	0.15	0.58	60.9	12	63	271	76.4	0.90	1.05	1.05	2.4
Wm. W. Brown	01	29	13	NM	0.20	0.69	46.8	11	22	96	33.5	0.32	-0.25	NA	19.0
Wm. W. Brown	08	19	8	19	0.00	0.00	217.1	NA	11	215	NA	1.07	1.01*	NA	4.7
Wm. W. Brown	01	47	14	29	0.00	0.00	37.7	50	45	184	277.3	1.32	1.60	1.87	5.2
Wm. W. Brown	01	18	8	14	0.00	0.00	25.4	-9	57	93	280.6	1.32	1.25	1.31	2.1
Wm. W. Brown	12	54	24	12	1.60	2.94	350.7	21	61	682	65.4	-7.02	4.37	4.53	6.6
Wm. W. Brown	12	11	2	11	0.00	0.00	99.3	-23	62	148	78.6	0.83	0.97	0.90	4.2
Wm. W. Brown	02	11	11	8	0.44	4.14	32.0	-27	41	80	40.3	1.56	1.26	1.33	2.1
Wm. W. Brown	12	21	4	35	0.24(c)	1.13	104.0	150	9	65	39.1	0.38	0.60	0.34	5.5
Wm. W. Brown	01	23	23	11	1.10(d)	4.84	10.3	-3	31	57	22.6	1.76	2.07	1.45	28.4
Wm. W. Brown	01	28	6	17	0.50	1.80	69.9	-2	95	299	106.2	1.40	1.68	1.64	2.5
Wm. W. Brown	01	41	10	24	0.00	0.00	291.5	1	65	678	55.9	1.47	1.72	1.83	2.4
Wm. W. Brown	01	15	10	NM	0.32	2.17	45.8	22	64	138	95.5	0.10	-0.12	NA	9.5
Wm. W. Brown	07	15	6	12	0.00	0.00	32.0	-26	21	61	35.6	0.98	1.25*	1.54	2.3
Wm. W. Brown	01	24	12	9	0.58	2.47	17.0	-15	66	130	85.8	2.82	2.51	NA	3.9
Wm. W. Brown	01	13	14	11	0.00	0.00	33.1	-30	70	119	166.5	1.33	1.16	1.36	9.9
Wm. W. Brown	01	29	4	28	0.13	0.45	2298.3	-11	27	851	34.2	0.87	1.04	1.30	1.6
Wm. W. Brown	01	23	11	17	1.16	5.02	131.9	-26	75	383	83.8	2.14	1.40	1.54	10.3
ELECTRICAL & ELECTRONICS															
INDUSTRY AVERAGE		38	18	24	0.57	1.46	85.5	24	66	310	107.4	1.44	2.16	2.35	6.5
ELECTRICAL PRODUCTS															
UP AVERAGE		34	15	40	0.86	2.14	108.3	-7	66	313	66.5	1.55	1.67	1.89	8.5
per Industries	12	51	26	18	1.32	2.61	114.2	8	63	458	45.4	2.71	2.79	3.09	3.2
erson Electric	09	57	17	18	1.56	2.76	225.3	3	66	731	31.7	2.96	3.15*	3.35	1.4
ineTek	06	14	7	13	0.00	0.00	24.1	-18	77	138	187.8	1.22	1.09*	1.35	19.2
onal Service Industries	08	24	14	16	1.04	4.29	49.6	-6	59	225	29.5	1.50	1.52*	1.14	3.5
chem	06	37	17	193	0.32	0.87	42.2	-9	82	242	67.6	-0.43	0.19*	NA	19.5
ance Electric	12	17	9	20	0.00	0.00	41.3	-30	69	91	53.5	0.74	0.87	1.12	8.4
nas & Betts	12	60	25	20	2.24	3.71	18.9	-7	74	249	43.3	2.72	2.97	2.65	5.8
tinghouse Electric	12	14	5	18	0.40	2.86	351.1	6	38	368	72.9	0.95	0.76	0.51	7.3
ELECTRONICS															
UP AVERAGE		54	30	21	0.64	1.37	86.8	46	68	354	81.6	2.20	2.87	3.04	4.0
stems	12	42	22	12	1.10	2.63	33.8	5	56	253	71.2	3.31	3.61	4.01	1.8
eral Instrument	12	53	6	40	0.00	0.00	60.1	114	57	186	153.0	-0.84	1.34	NA	6.6
Hughes Electronics	12	37	81	16	0.72	1.93	87.9	33	68	244	45.1	-0.11	2.30	1.88	2.49
is	06	45	29	16	1.12	2.51	39.9	35	73	248	62.2	2.24	2.82*	1.92	3.4
n Industries	07	65	37	31	0.00	0.00	45.5	64	75	264	86.7	4.22	2.10*	2.22	5.3
il	03	33	15	13	0.56	1.70	82.8	44	72	359	70.1	2.07	2.58	2.93	3.5
rola	12	94	22	27	0.44	0.47	278.0	85	76	900	116.9	2.16	3.42	3.00	6.8
theon	12	61	31	12	1.40	2.29	135.7	20	73	606	40.2	4.72	5.11	5.41	1.7
an Associates	09	52	24	21	0.40	0.77	17.5	14	63	130	89.3	2.04	2.52*	2.92	5.3
INSTRUMENTS															
UP AVERAGE		29	14	23	0.59	2.09	45.9	10	64	228	59.1	0.86	1.49	1.70	5.6
tek	12	13	4	21	0.68	5.44	43.6	-24	50	152	54.4	1.01	0.60	0.75	11.8
man Instruments	12	27	12	16	0.36	1.35	28.8	13	54	152	47.9	1.53	1.68	1.57	5.4
eywell	12	33	13	14	0.96	2.94	133.1	-4	73	407	65.2	2.88	2.38	2.30	2.8
Industries	12	7	13	NM	0.00	0.00	16.9	4	59	72	57.2	-3.26	-0.08	NA	NM
ison Controls	09	53	25	17	1.44	2.70	40.4	19	62	319	42.0	2.86	3.16*	2.84	2.8
ore	12	35	16	19	0.56	1.62	27.9	-3	73	235	76.5	1.41	1.79	1.56	5.0
in-Elmer	06	34	7	63	0.68	2.00	43.9	29	78	270	61.9	1.72	0.54*	0.77	2.6
ronix	05	22	14	14	0.60	2.73	30.6	11	71	186	58.0	-1.94	1.60	1.71	12.6
mo Electron	12	38	18	23	0.00	0.00	47.5	43	60	259	69.2	1.51	1.70	2.07	1.5

Footnotes on page 145



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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHAPE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1993 TURN- OVER %	1992 ACTUAL	I/B/E/S 1993 ANALYST EST	BASED ON 5 YEAR TREND	FROM ANALY- ST CON- SENSUS	V
(d) SEMICONDUCTORS															
GROUP AVERAGE		36	14	15	0.26	0.44	101.7	42	65	342	206.6	1.20	2.52	2.85	3.30
Advanced Micro Devices	12	19	14	8	0.00	0.00	91.7	9	67	302	314.2	2.57	2.51	7.23	3.01
AMP	12	58	20	21	1.60	2.75	104.9	0	79	577	46.4	2.75	2.84	2.67	3.21
Intel	12	62	17	12	0.20	0.33	418.2	41	74	1025	327.4	2.49	5.26	5.27	5.86
LSI Logic	12	15	6	14	0.00	0.00	48.9	49	68	155	191.6	-2.48	1.09	NA	1.42
Micron Technology	08	46	16	18	0.05	0.11	40.1	153	66	176	355.4	0.17	2.60*	0.24	6.55
Molex	06	32	12	27	0.03	0.09	63.2	21	20	170	28.0	1.08	1.19*	1.22	1.43
National Semiconductor	05	18	8	11	0.00	0.00	110.9	72	78	276	166.3	0.98	1.57	NA	1.74
SCI Systems	06	18	11	17	0.00	0.00	27.1	27	58	113	374.8	0.18	1.09*	0.26	1.32
Texas Instruments	12	64	24	13	0.72	1.12	90.6	51	81	474	181.7	2.50	4.95	3.67	5.86
Vishay Intertechnology	12	33	18	15	0.00(d)	0.00	21.2	0	55	149	80.2	1.71	2.14	2.21	2.58
10 FOOD															
INDUSTRY AVERAGE		27	9	18	0.59	2.08	98.4	-3	46	224	49.0	1.31	1.64	2.09	1.96
(a) FOOD DISTRIBUTION															
GROUP AVERAGE		22	12	16	0.50	2.05	57.7	10	60	199	48.7	1.25	1.55	1.78	1.74
Fleming	12	30	30	10	1.20	4.00	36.9	-4	84	258	62.4	3.33	3.01	3.14	3.21
Richfood Holdings	04	16	4	16	0.08	0.52	21.2	48	60	79	72.8	0.76	0.99	1.73	1.17
Smart & Final	12	14	5	19	0.20	1.43	20.1	-27	29	47	25.9	0.71	0.75	0.73	0.89
Super Food Services	08	13	12	16	0.36	2.69	10.9	32	50	56	40.5	-0.51	0.85*	0.84	0.95
Supervalu	02	33	17	13	0.88	2.64	71.9	8	72	350	49.5	2.31	2.62	2.90	2.96
Sysco	06	28	6	26	0.28	1.01	185.0	3	61	405	41.0	0.93	1.08*	1.33	1.26
(b) FOOD PROCESSING															
GROUP AVERAGE		30	9	18	0.70	2.31	108.9	-6	47	260	51.2	1.43	1.73	2.12	2.08
Archer Daniels Midland	06	22	14	14	0.10(d)	0.45	333.4	-14	52	549	43.7	1.47	1.56*	1.72	1.58
Borden	12	17	7	40	0.60	3.45	141.0	-39	51	400	95.2	-1.47	0.43	0.48	0.87
Campbell Soup	07	43	7	42	1.00	2.35	251.7	1	27	370	20.7	1.95	1.02*	1.80	2.51
Chiquita Brands International	12	11	13	NA	0.20	1.90	48.2	-39	67	75	59.7	-4.28	-0.26	NA	0.73
ConAgra	05	27	8	15	0.72	2.69	251.7	-18	34	345	36.6	1.58	1.76	1.94	1.97
Continental Baking Group	09	8	3	11	0.32	3.88	20.7	NA	15	71	NA	2.22	0.78	NA	0.94
CPC International	12	47	11	16	1.28	2.73	150.2	-8	62	572	41.3	2.78	2.96	3.36	3.30
Dean Foods	05	27	12	15	0.64	2.35	39.7	-3	36	156	31.5	1.73	1.83	1.85	2.17
Dole Food	12	26	18	18	0.40	1.53	59.4	-19	59	177	41.0	1.09	1.44	1.28	2.01
Flowers Industries	06	19	7	18	0.77	4.08	37.7	-5	45	133	40.8	0.92	1.07*	0.89	1.13
General Mills	05	61	8	16	1.88	3.09	159.2	-14	67	631	43.6	3.10	3.80	4.29	4.29
Gerber Products	03	29	5	17	0.86	2.97	69.3	-12	50	259	69.3	1.80	1.75	2.14	1.92
Heinz (H. J.)	04	38	9	14	1.32	3.51	252.9	-15	54	517	35.8	2.04	2.60	2.71	2.82
Hershey Foods	12	51	16	18	1.20	2.36	90.0	8	30	369	30.3	2.69	2.86	3.37	3.21
Hormel Foods	10	22	9	17	0.44	2.00	76.6	-7	22	104	11.3	1.24	1.31*	1.50	1.50
IBP	12	25	12	15	0.20	0.80	47.5	25	87	197	75.2	1.34	1.64	0.59	1.97
International Multifoods	02	23	14	12	0.80	3.54	19.4	-17	60	122	50.3	2.13	1.94	2.26	2.08
Interstate Bakeries	05	14	10	10	0.50	3.51	20.7	-28	69	95	64.8	1.46	1.43	NA	1.59
Kellogg	12	60	8	21	1.36	2.25	228.4	-13	73	473	32.5	2.86	2.89	3.31	3.21
Lancaster Colony	06	44	9	22	0.52	1.19	22.6	46	51	122	68.9	1.42	2.02*	1.91	2.40
McCormick	11	23	6	19	0.44	1.89	81.0	-22	45	199	99.9	1.16	1.24	1.79	1.42
Pet	06	17	3	16	0.32	1.92	104.1	-5	56	264	72.3	0.96	1.06*	NA	1.15
Pioneer Hi-Bred International	08	36	9	23	0.56	1.57	89.5	32	54	211	74.6	1.68	1.53*	2.04	2.09
Quaker Oats	06	73	8	19	2.12	2.89	67.9	6	59	439	69.8	3.25	3.93*	3.74	4.59
Ralston Purina Group	09	41	7	13	1.20	2.92	103.5	NA	45	347	NA	2.57	3.17	3.18	3.20
Sara Lee	06	26	7	19	0.64	2.46	477.4	-15	46	615	38.8	1.54	1.40*	1.78	1.56
Savannah Foods & Industries	12	13	8	23	0.54	4.04	26.2	-12	33	69	15.5	1.03	0.58	0.84	0.70
Smithfield Foods	04	16	8	27	0.00	0.00	16.3	-18	22	52	78.1	0.15	0.58	0.41	2.00
Thorn Apple Valley	05	19	15	8	0.28	1.47	5.9	-24	43	35	68.8	2.36	2.41	5.36	2.33
Tyson Foods	09	24	9	19	0.04	0.17	147.2	-2	18	140	37.3	1.16	1.22*	1.48	1.45
Universal Foods	09	31	12	14	0.92	2.97	26.4	-8	63	154	43.0	1.57	2.15*	2.40	2.44
WLR Foods	06	18	13	13	0.32	1.75	11.0	9	20	45	74.2	0.52	1.42*	1.42	1.71
Wrigley (Wm.) Jr.	12	43	5	29	0.67	1.56	116.4	31	23	279	23.4	1.27	1.49	1.68	1.71
(c) FOOD RETAILING															
GROUP AVERAGE		23	8	16	0.39	1.62	92.0	0	38	159	44.9	1.09	1.49	2.15	1.79
Albertson's	01	25	5	19	0.36	1.45	253.3	-6	49	437	47.9	1.05	1.34	1.50	1.53
American Stores	01	41	23	12	0.80	1.93	71.2	-5	87	321	47.7	2.94	3.42	4.79	3.96
Bruno's	06	9	5	15	0.24	2.63	78.1	-34	25	160	88.7	0.69	0.60*	0.74	0.67
Food Lion	12	6	2	22	0.09	1.53	483.7	-27	4	65	25.8	0.37	0.26	0.37	0.36
Giant Food	02	23	11	15	0.70	3.01	59.7	4	39	216	25.9	1.37	1.60	1.45	1.77
Great Atlantic & Pacific Tea	02	28	27	27	0.80	2.88	38.2	16	35	171	35.8	-2.58	1.04	0.91	1.60
Hannaford Brothers	21	9	16	0.34	1.61	41.1	4	37	107	20.3	1.21	1.33	1.49	1.50	
Kroger	19	-24	13	0.00	0.00	107.1	49	48	269	90.9	1.11	1.45	2.47	1.92	
Marsh Supermarkets	03	12	13	10	0.44	3.67	8.4	-10	23	28	12.7	1.26	1.20	1.28	1.18
Penn Traffic	01	35	2	22	0.00	0.00	10.8	64	51	64	46.6	0.39	1.57	NA	2.68
Ruddick	09	20	12	17	0.45(c)	2.11	23.1	6	59	77	15.9	1.30	1.26*	1.43	1.56
Safeway	12	19	3	16	0.00	0.00	99.8	48	26	109	60.0	0.83	1.19	3.25	1.51
Smith's Food & Drug Centers	12	22	18	14	0.52	2.42	29.9	-39	35	105	80.2	1.79	1.56	1.93	1.74
Stop & Shop	01	18	3	14	0.00	0.00	49.1	2	32	88	44.3	1.05	1.24	4.92	1.52
Vons	12	17	12	10	0.00	0.00	43.3	-35	40	116	54.2	1.89	1.62	1.97	1.72
Winn-Dixie Stores	06	54	13	17	1.44	2.66	74.9	-31	18	213	20.9	2.82	3.11*	3.69	3.36

Footnotes on page 145



Roy Lichtenstein

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P-E RATIO 1993 EST	1993 DIVI DEND RATE	YIELD %	SHRS OUT. MILS.	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1993 TURN-OVER %	1992 ACTUAL	I/B/E/S 1993 ANALYST EST.	BASED ON 5-YEAR TREND	FROM ANALYST I/B/E/S CONSENSUS	VALUATION
11 FUEL															
INDUSTRY AVERAGE		36	18	26	1.14	2.74	150.6	15	58	372	57.9	1.05	1.75	2.08	2.30
(a) COAL															
GROUP AVERAGE		34	14	19	0.41	1.10	8.6	-13	41	87	32.1	2.83	1.83	1.38	2.94
Nacco Industries	12	45	26	27	0.66	1.47	8.9	-13	64	134	32.1	2.71	1.65	1.38	3.78
Pittston Minerals Group	12	22	2	11	0.16	0.73	8.2	NA	19	39	NA	2.94	2.01	NA	2.09
(b) OIL & GAS															
GROUP AVERAGE		37	20	25	1.28	2.89	163.8	16	57	379	53.7	1.01	1.88	2.30	2.42
Amerada Hess	12	47	34	NM	0.60	1.29	92.6	1	68	410	55.6	0.09	-0.79	NA	1.46
Amoco	12	53	27	16	2.20	4.12	496.9	10	61	925	31.2	1.71	3.32	2.13	3.69
Ashland Oil	09	33	19	15	1.00	3.02	60.0	26	52	241	60.8	-1.18	2.26*	2.28	2.51
Atlantic Richfield	12	104	42	18	5.50	5.30	159.7	-9	62	836	46.9	7.39	5.89	5.04	6.89
Burlington Resources	12	45	20	27	0.55	1.22	130.3	14	68	523	65.9	1.44	1.66	2.45	1.92
Chevron	12	87	43	15	3.50	4.03	325.6	25	40	862	41.8	6.52	5.98	7.62	6.47
Coastal	12	27	21	20	0.40	1.49	104.5	13	76	347	59.5	-1.23	1.34	1.07	1.92
Crown Central Petroleum	12	13	30	57	0.00	0.00	9.8	7	18	30	14.1	-1.35	0.23	0.15	0.98
Diamond Shamrock	12	24	18	15	0.52	2.14	28.9	32	71	133	67.2	0.92	1.62	1.09	2.16
Exxon	12	63	28	17	2.88	4.59	1241.6	3	40	1101	20.3	3.82	3.68	4.11	4.06
Holly	07	29	6	12	0.30	1.03	8.3	-4	59	42	11.3	0.33	2.42*	0.75	3.38
Kerr-McGee	12	47	29	21	1.52	3.25	48.6	5	79	311	53.8	-0.53	2.22	2.18	2.97
Louisiana Land & Exploration	12	40	13	48	1.00	2.52	33.1	35	66	225	49.8	-0.04	0.82	0.59	1.42
Mapco	12	61	18	14	1.00	1.65	30.0	12	84	213	43.1	3.37	4.48	4.65	5.21
Maxus Energy	12	5	1	NM	0.00	0.00	134.1	-18	60	240	118.9	0.27	-0.47	NA	-0.25
Mitchell Energy & Development	01	21	15	20	0.48	2.31	52.6	44	9	74	12.7	0.77	1.03	3.48	1.25
Mobil	12	76	43	15	3.40	4.45	399.7	21	53	960	39.6	3.13	5.16	4.09	5.44
Murphy Oil	12	40	27	22	1.30	3.24	44.8	13	61	203	42.2	1.40	1.81	1.97	2.18
Occidental Petroleum	12	18	11	127	1.00	5.63	305.1	5	46	410	57.4	0.41	0.14	0.17	0.63
Oryx Energy	12	19	8	NM	0.40	2.15	96.9	-5	61	319	79.6	0.74	-0.06	NA	0.51
Pennzoil	12	57	32	26	3.00	5.25	45.9	29	60	302	61.3	0.43	2.22	0.55	2.67
Phillips Petroleum	12	29	10	22	1.12	3.93	261.4	14	53	509	52.5	1.04	1.31	0.72	1.71
Quaker State	12	13	7	20	0.40	2.99	27.2	17	32	93	66.3	0.35	0.66	0.53	0.85
Sun	12	32	18	20	1.80	5.58	106.6	15	52	272	43.1	-2.98	1.62	4.94	1.93
Tesoro Petroleum	12	6	3	NM	0.00	0.00	14.1	83	30	33	52.1	-3.87	-1.12	NA	-0.32
Texaco	12	64	35	16	3.20	4.99	259.0	7	61	885	58.7	3.53	3.99	3.24	4.52
Tosco	12	32	11	14	0.60	1.90	29.3	54	65	150	108.9	0.68(b)	2.33	1.66	2.76
Ultramar	12	27	14	13	1.10	4.07	38.2	43	91	120	62.7	1.14	2.16	NA	2.63
Union Texas Petroleum Holdings	12	19	3	32	0.20	1.04	87.6	5	60	164	63.6	0.86	0.61	0.90	1.13
Unocal	12	27	11	20	0.80	2.94	241.2	7	71	580	70.3	0.75	1.33	1.61	1.64
USX-Marathon Group	12	17	11	36	0.68	4.03	286.6	-2	56	427	40.5	0.37	0.47	0.86	0.84
Valero Energy	12	23	20	12	0.52	2.30	43.1	-1	69	198	65.8	1.94	1.83	3.31	2.28
(c) PETROLEUM SERVICES															
GROUP AVERAGE		28	13	32	0.66	2.48	127.5	17	67	427	84.9	0.69	1.02	1.22	1.44
Baker Hughes	09	20	11	59	0.46	2.30	139.9	3	76	425	102.1	0.00	0.34*	0.58	0.95
Baroid	12	8	3	22	0.20	2.62	92.5	68	50	156	97.3	0.24	0.34	0.31	0.44
CBI Industries	12	31	19	39	0.48	1.57	37.5	6	70	152	77.0	1.79	0.78	1.56	1.49
Dresser Industries	10	20	7	19	0.60	3.08	137.5	9	72	443	84.2	0.52	1.05	0.79	1.28
Halliburton	12	31	17	32	1.00	3.24	114.1	14	74	473	92.5	-1.15	0.98	0.65	1.45
Schlumberger	12	58	18	22	1.20	2.09	243.5	1	58	911	56.1	2.75	2.62	3.47	3.03
12 HEALTH CARE															
INDUSTRY AVERAGE		31	10	16	0.55	1.50	135.6	12	53	319	95.1	1.63	1.87	2.68	2.28
(a) DRUG DISTRIBUTION															
GROUP AVERAGE		21	11	16	0.40	1.55	37.4	6	42	134	61.7	1.16	1.22	1.43	1.55
Bergen Brunswig	08	18	11	23	0.40	2.22	36.4	-15	60	140	51.8	1.41	0.79*	1.04	1.53
Bindley Western Industries	12	12	15	9	0.08	0.67	10.8	-5	49	58	105.8	1.02	1.29	1.79	1.48
Cardinal Distribution	03	44	15	24	0.10	0.23	22.8	73	64	130	136.9	1.63(b)	1.82	2.38	2.20
Drug Emporium	02	5	4	11	0.00	0.00	13.1	-15	14	32	101.0	-0.20	0.42	0.37	0.65
Fay's	01	7	4	10	0.20	2.96	20.0	-10	18	41	25.7	0.56	0.65	0.60	0.70
FoxMeyer	03	12	16	13	0.28	2.31	28.2	4	7	31	13.0	0.01	0.93	0.10	1.08
Hook-SuperRx	08	6	6	NM	0.00	0.00	20.8	-51	25	44	44.4	0.99	-0.17*	NA	0.88
Longs Drug Stores	01	34	23	14	1.12	3.34	20.5	-6	41	164	22.7	2.58	2.43	2.43	2.71
McKesson	03	56	12	20	1.68	2.98	40.3	31	63	282	62.6	2.69	2.88	2.24	3.18
Perry Drug Stores	10	6	6	12	0.00	0.00	12.0	-30	33	42	74.9	0.75	0.53	0.72	0.80
Revco D. S.	05	16	9	20	0.00	0.00	50.1	139	56	78	67.6	0.35	0.78	NA	1.03
Rite Aid	02	16	12	10	0.60	3.72	88.1	-25	68	285	55.6	1.51	1.54	1.73	1.68
Walgreen	08	41	11	21	0.68	1.67	123.1	-7	51	417	40.1	1.78	1.98*	2.28	2.28
(b) DRUGS & RESEARCH															
GROUP AVERAGE		44	10	15	1.38	3.22	266.4	-16	52	570	79.2	2.71	3.01	3.56	3.31
Allergan	12	22	8	14	0.40	1.80	65.3	-16	81	274	34.8	1.56	1.58	1.97	1.71
American Home Products	12	63	12	13	2.92	4.66	310.0	-8	62	925	40.5	3.66	4.75	4.82	5.07
Amgen	12	45	8	18	0.00	0.00	134.1	-37	56	453	355.9	2.43	2.51	6.75	2.89

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1993 TURN- OVER %	1992 ACTUAL	1/8/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANALY- 1/8/E/S CON- SENSUS
Bristol-Myers Squibb	12	60	12	14	2.88	4.81	515.9	-12	49 1097	68.9	2.97	4.42	4.69	4.64
Carter-Wallace	03	22	8	28	0.33	1.49	45.8	-40	39 133	46.4	1.03	0.80	0.87	1.50
Lilly (Eli)	12	57	19	13	2.42	4.22	292.7	-6	62 639	50.5	2.81	4.56	4.47	4.62
Marion Merrell Dow	12	20	7	12	1.00	5.03	274.2	-24	12 189	30.6	2.45	1.69	2.62	1.65
Merck	12	34	5	15	1.12	3.27	1135.9	-22	47 1046	63.7	2.12	2.35	2.92	2.43
Pfizer	12	67	12	18	1.68	2.53	312.0	-12	64 917	88.9	3.25	3.76	3.72	4.31
Rhone-Poulenc Rorer	12	38	10	12	1.12	2.95	138.5	-18	16 185	33.2	2.99	3.21	3.25	3.67
Schering-Plough	12	67	8	16	1.80	2.69	193.0	2	67 823	79.0	3.60	4.20	5.09	4.78
Sigma-Aldrich	12	47	11	22	0.29	0.62	49.8	-18	61 268	65.6	1.92	2.16	2.43	2.48
Syntex	07	17	5	13	1.04	6.07	221.0	-27	30 413	84.2	2.10	1.29*	1.82	1.77
Upjohn	12	31	12	10	1.48	4.74	173.6	-4	61 463	66.7	3.04	3.10	3.82	2.80
Warner-Lambert	12	66	13	14	2.28	3.44	134.5	-5	78 727	78.8	4.78	4.79	4.13	5.30
(c) HEALTH-CARE SERVICES														
GROUP AVERAGE		26	9	17	0.05	0.20	73.9	50	54 185	127.2	1.11	1.42	2.76	1.90
American Medical Holdings	08	17	9	19	0.00	0.00	76.9	29	41 106	44.8	1.43	0.87*	NA	1.14
Beverly Enterprises	12	12	7	18	0.00	0.00	81.7	4	78 227	143.3	0.04	0.70	0.32	0.85
Caremark International	12	18	5	17	0.04	0.23	71.5	19	47 265	102.0	0.39	1.04	NA	1.25
Charter Medical	09	24	2	NM	0.00	0.00	24.9	201	41 64	87.3	NA	-1.59*	NA	3.10
Columbia Healthcare	12	29	10	15	0.03	0.10	150.9	NM	37 176	47.3	1.18	1.93	2.29	2.29
Continental Medical Systems	06	9	7	15	0.00	0.00	36.9	-46	65 135	130.2	0.73	0.59*	1.30	0.90
FHP International	06	25	11	18	0.00	0.00	32.9	23	77 148	238.7	1.00	1.33*	1.53	1.63
Foundation Health	06	27	10	13	0.00	0.00	28.8	-31	69 164	302.1	2.02	2.05*	3.04	2.39
HCA—Hospital Corp. of America	12	30	10	14	0.00	0.00	176.1	55	38 177	55.4	0.16	2.07	NA	2.39
Healthtrust	08	23	8	14	0.00	0.00	81.2	17	44 179	79.2	0.90	1.62*	NA	1.96
Hillhaven	05	19	9	18	0.00	0.00	21.0	-5	46 113	87.4	1.65	1.05	NA	1.30
Humana	12	16	4	31	0.00	0.00	159.3	NA	62 298	NA	-0.72	0.52	NA	0.73
Manor Care	05	21	7	16	0.09	0.42	57.5	-10	49 215	76.8	1.09	1.29	1.86	1.48
Medical Care America	12	20	11	15	0.00	0.00	36.6	-16	65 194	207.9	1.10	1.36	1.86	1.60
National Health Laboratories	12	13	2	9	0.32	2.56	88.7	-30	67 189	120.5	0.43	1.40	1.13	1.35
National Medical Enterprises	05	12	10	10	0.00	0.00	165.9	7	73 323	123.5	0.96	1.12	0.89	1.27
PacificCare Health Systems	09	39	12	17	0.00	0.00	27.4	-25	17 80	58.1	1.78	2.25*	3.79	2.61
TakeCare	12	50	15	16	0.00	0.00	10.9	12	53 72	208.3	2.49	3.08	3.87	3.60
U. S. Healthcare	12	58	6	22	0.64	1.11	107.9	30	73 390	357.2	1.85	2.64	9.87	3.08
United HealthCare	12	72	11	30	0.03	0.04	76.1	40	87 384	123.9	1.65	2.41	4.44	3.00
Universal Health Services	12	20	16	12	0.00	0.00	13.6	38	57 59	41.1	1.43	1.63	2.52	1.78
WellPoint Health Network	12	28	11	15	0.00	0.00	99.5	NA	12 121	35.3	1.76	1.87	NA	2.18
(d) MEDICAL PRODUCTS														
GROUP AVERAGE		37	12	16	0.57	1.68	196.8	-9	63 474	95.0	1.67	1.99	2.62	2.49
Abbott Laboratories	12	29	4	17	0.68	2.32	825.4	-5	50 887	36.7	1.47	1.69	1.95	1.89
Bard (C. R.)	12	24	7	15	0.56	2.30	52.0	-28	60 302	101.7	1.42	1.61	1.42	1.88
Bausch & Lomb	12	52	16	16	0.88	1.68	59.1	-5	76 397	74.2	2.84	3.23	3.21	3.69
Baxter International	12	24	14	12	1.00	4.23	276.1	-28	65 603	77.3	1.99	2.02	2.38	2.17
Becton, Dickinson	09	34	21	13	0.66	1.94	75.5	-15	83 376	51.6	2.58	2.71*	3.01	3.08
Imcra Group	06	35	12	NM	0.44	1.28	76.7	3	78 300	90.0	1.65	-1.48*	NA	2.04
Johnson & Johnson	12	44	9	16	1.04	2.38	647.5	-15	57 1032	51.1	2.46	2.75	3.18	3.05
Kendall International	12	42	12	17	0.00	0.00	19.0	44	NA NA	91.8	-2.65	2.44	NA	3.06
Medtronic	04	77	15	19	0.68	0.88	57.5	-22	72 451	117.3	3.56	3.99	4.67	4.57
Owens & Minor	12	19	6	22	0.21	1.08	20.2	36	49 87	56.1	0.78	0.90	1.12	1.07
U. S. Surgical	12	22	10	NA	0.08	0.36	56.1	-68	40 301	296.7	2.32	NA	NA	0.85
13 HOUSING & REAL ESTATE														
INDUSTRY AVERAGE		33	14	24	0.49	1.48	38.9	55	53 167	55.5	0.95	1.86	1.68	2.38
(a) BUILDING MATERIALS														
GROUP AVERAGE		36	12	29	0.58	1.49	45.1	21	52 178	39.2	1.41	1.81	1.78	2.38
Lafarge	12	20	10	111	0.30	1.50	66.7	52	18 83	22.8	-0.63	0.18	0.12	1.11
Owens-Corning Fiberglas	12	46	-21	17	0.00	0.00	42.8	28	84 242	87.8	1.68	2.71	1.63	3.62
Ply Gem Industries	12	18	11	24	0.12	0.69	10.8	35	43 46	51.0	0.56	0.73	0.40	0.99
PPG Industries	12	71	23	21	2.16	3.05	106.1	7	52 495	33.8	3.01	3.40	2.53	4.30
RPM	05	17	6	20	0.52	3.01	53.1	9	36 137	36.4	0.83	0.88	0.96	1.01
Sherwin-Williams	12	33	11	18	0.50	1.52	88.8	8	62 359	37.1	1.63	1.84	1.97	2.06
Tecumseh Products	12	47	31	14	0.80	1.72	21.9	60	20 77	11.7	2.39	3.23	2.16	3.54
Texas Industries	05	26	26	35	0.20	0.77	11.0	16	52 56	17.8	0.11	0.75	0.17	2.00
Valspar	10	38	9	20	0.44	1.17	21.5	13	63 96	14.5	1.57	1.85*	2.14	2.07
Vulcan Materials	12	46	19	20	1.26	2.75	36.4	-7	59 153	20.8	2.41	2.33	1.78	3.10
York International	12	34	12	17	0.08	0.24	37.4	5	82 210	97.6	1.90	2.03	5.67	2.34
(b) CONSTRUCTION & REAL ESTATE														
GROUP AVERAGE		27	16	14	0.32	1.45	27.6	117	55 148	85.3	0.10	1.95	1.47	2.40
Centex	03	39	20	16	0.20	0.51	31.5	24	77 252	106.3	1.91	2.52	2.19	3.06
Kaufman & Broad Home	11	20	13	19	0.30	1.49	34.8	25	49 198	106.2	0.78	1.08	0.66	1.67
Pulte	12	37	20	14	0.24	0.65	27.5	23	53 210	78.8	2.66	2.68	2.98	3.18
Rouse	12	19	3	13	0.60(c)	3.12	47.3	7	63 106	52.5	-0.33	1.43	0.59	1.61
Ryland Group	12	21	20	12	0.60	2.93	15.3	-2	80 105	77.0	1.66	1.72	0.93	2.20
U. S. Home	12	27	21	12	0.00	0.00	9.2	NM	5 19	91.4	-6.06	2.25	NA	2.68

Footnotes on page 145

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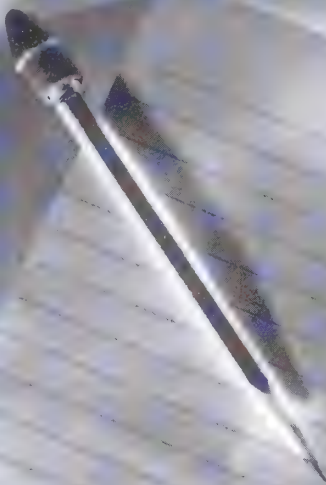
INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1993 TURN- OVER %	1992 ACTUAL	I/B/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	I/B/E/S CON- SENSUS	V
14 LEISURE TIME INDUSTRIES															
INDUSTRY AVERAGE		32	10	23	0.31	0.92	99.7	25	60	271	96.6	1.13	1.07	1.72	1.81
(a) EATING PLACES															
GROUP AVERAGE		25	6	22	0.15	0.60	90.5	1	47	209	69.2	0.54	0.83	1.55	1.31
Bob Evans Farms	04	19	8	17	0.27	1.39	42.0	-12	40	115	52.7	1.03	1.17	1.29	1.30
Brinker International	06	42	8	40	0.00	0.00	45.8	52	89	259	61.4	0.77	1.03*	1.32	1.30
Flagstar	12	9	7	NM	0.00	0.00	42.4	-55	35	37	25.9	-2.35	-1.08	NA	-0.18
Foodmaker	09	10	5	NM	0.00	0.00	38.2	-32	34	58	92.1	0.67	-1.15*	NA	0.59
Marriott International	12	24	NA	19	0.07	0.29	116.4	NA	1	9	NA	1.16	1.28	NA	1.49
McDonald's	12	59	16	20	0.43	0.73	353.1	17	65	810	44.7	2.60	2.93	3.24	3.35
Morrison Restaurants	05	23	6	20	0.33	1.45	36.1	15	43	136	78.4	1.00	1.16	1.21	1.35
Shoney's	10	21	-6	16	0.00	0.00	40.6	-4	60	198	110.0	-0.65	1.37	1.25	1.64
Wendy's International	12	16	6	21	0.24	1.50	99.7	28	56	260	88.4	0.64	0.76	0.96	0.91
(b) ENTERTAINMENT															
GROUP AVERAGE		51	17	31	0.38	0.65	292.1	59	50	564	104.0	1.52	1.64	1.98	2.12
Blockbuster Entertainment	12	33	6	31	0.10	0.30	222.1	107	50	384	98.0	0.77	1.08	1.70	1.37
Disney (Walt)	09	40	10	32	0.25	0.63	535.8	-7	43	788	61.8	1.52	1.23*	1.48	1.99
Paramount Communications	04	79	34	30	0.80	1.02	118.4	76	58	520	152.3	2.27	2.60	2.75	3.01
(c) HOTEL & MOTEL															
GROUP AVERAGE		39	12	27	0.24	0.52	67.5	46	71	253	156.7	1.52	1.74	1.68	2.25
Caesars World	07	49	19	14	0.00	0.00	24.6	28	88	187	201.9	3.01	3.40*	2.90	3.76
Circus Circus Enterprises	01	35	6	23	0.00	0.00	87.3	-7	84	297	171.8	1.41	1.52	1.82	2.11
Hilton Hotels	12	46	22	21	1.20	2.62	47.8	6	38	260	71.0	2.17	2.15	1.89	2.68
Mirage Resorts	12	22	8	27	0.00	0.00	75.7	70	71	179	174.3	0.53	0.83	0.76	1.22
Promus	12	42	5	52	0.00	0.00	102.2	131	76	342	164.2	0.51	0.81	1.05	1.49
(d) OTHER LEISURE															
GROUP AVERAGE		30	11	20	0.42	1.33	75.9	25	67	255	89.1	1.29	0.86	1.75	1.91
American Greetings	02	31	13	18	0.50	1.61	73.9	26	80	323	128.6	1.55	1.76	2.22	2.02
Brunswick	12	17	9	31	0.44	2.61	95.2	4	64	230	46.6	0.43	0.54	0.30	0.86
Carnival Cruise Lines	11	48	11	21	0.56	1.16	141.2	47	30	216	34.3	2.00	2.24	2.41	2.72
Eastman Kodak	12	61	13	18	2.00	3.29	329.6	52	66	857	106.5	3.06	3.35	1.03	4.16
Fleetwood Enterprises	04	24	11	17	0.50	2.07	45.7	0	60	221	106.5	1.23	1.38	1.09	1.62
Harley-Davidson	12	44	10	23	0.06	0.14	38.0	18	70	247	109.2	1.51	1.92	2.02	2.30
Harman International Industries	06	24	10	23	0.00	0.00	10.9	58	60	59	59.1	0.39	1.04*	0.56	1.56
Hasbro	12	39	14	17	0.24	0.62	87.6	19	73	335	63.8	2.01	2.33	2.54	2.63
Huffy	12	18	9	15	0.30	1.66	14.7	30	54	83	69.3	0.92	1.25	1.75	1.51
Mattel	12	31	7	18	0.24	0.79	95.0	19	88	368	152.2	1.43	1.72	2.48	2.01
Musicland Stores	12	21	7	20	0.00	0.00	30.2	81	58	112	73.2	0.83	1.06	1.49	1.25
Outboard Marine	09	19	11	NM	0.40	2.08	19.6	-11	90	172	93.6	0.10	-8.42*	NA	0.71
Polaroid	12	35	16	16	0.60	1.70	46.8	14	79	250	75.5	2.06	2.17	3.12	2.82
Tyco Toys	12	11	10	NM	0.10	0.94	34.7	-11	63	99	129.1	0.60	-0.26	NA	0.62
15 MANUFACTURING															
INDUSTRY AVERAGE		36	13	21	0.61	1.68	52.2	25	61	230	72.3	1.09	1.79	1.81	2.32
(a) GENERAL MANUFACTURING															
GROUP AVERAGE		37	12	20	0.80	2.09	78.8	6	61	288	48.7	1.38	2.03	2.27	2.44
Alliant Techsystems	03	26	8	6	0.00	0.00	9.7	-7	70	75	54.4	-4.68	4.39	NA	4.69
Avery Dennison	12	30	13	20	0.96	3.25	57.4	0	63	289	37.7	1.33	1.46	0.96	1.70
Corning	12	27	9	17	0.68	2.54	200.1	-26	56	455	59.8	1.40	1.60	1.53	1.85
Crane	12	27	10	15	0.75	2.82	30.0	13	58	215	37.9	0.79	1.80	1.25	2.11
Duracell International	06	35	9	33	0.64	1.86	116.0	3	46	211	57.0	1.43	1.04*	NA	1.65
First Brands	06	34	15	14	0.24	0.70	21.9	18	81	137	52.8	1.91	2.41*	3.06	2.74
Harsco	12	39	21	13	1.40	3.56	25.0	2	50	184	39.5	3.52	3.14	5.83	3.34
Hillenbrand Industries	11	42	8	21	0.45	1.08	71.3	5	37	217	19.9	1.47	1.95	2.02	2.28
Illinois Tool Works	12	38	11	21	0.52	1.37	112.8	17	71	348	24.1	1.72	1.81	1.94	2.06
Jostens	06	19	7	NM	0.88	4.76	45.4	-31	68	252	77.2	1.50	-0.18*	NA	1.12
Mark IV Industries	02	19	8	16	0.10(d)	0.53	40.3	18	55	126	68.7	1.06(b)	1.20	1.29	1.34
Minnesota Mining & Mfg.	12	109	31	19	3.32	3.05	215.8	7	69	873	36.2	5.65	5.88	5.92	6.55
Newell	12	40	12	19	0.72	1.79	77.8	-2	62	344	64.5	2.10	2.10	2.61	2.41
Parker Hannifin	06	36	19	27	0.96	2.67	48.6	22	72	257	55.4	1.32	1.34*	1.07	1.78
Rubbermaid	12	34	7	25	0.45	1.34	160.4	6	47	437	35.0	1.04	1.32	1.44	1.52
Trinova	12	33	9	27	0.68	2.09	28.4	53	75	195	59.6	0.51	1.20	0.63	1.90
(b) MACHINE & HAND TOOLS															
GROUP AVERAGE		28	13	20	0.61	2.04	33.8	24	60	179	69.0	0.98	1.45	1.18	1.91
Black & Decker	12	21	11	21	0.40	1.95	83.8	14	72	269	82.8	-1.11	1.00	0.80	1.37
Blount	02	22	13	19	0.45	2.05	12.3	59	17	35	35.0	0.60	1.14	0.83	2.07
Cincinnati Milacron	12	20	6	22	0.36	1.80	33.5	48	71	197	93.4	0.58	0.90	0.69	1.33
Danaher	12	37	12	20	0.12	0.32	28.4	43	37	105	21.2	1.10	1.83	1.00	2.18
Giddings & Lewis	12	24	12	18	0.12	0.49	34.2	7	86	223	193.5	1.16	1.36	1.58	1.49
Kennametal	06	39	20	21	1.16	2.96	11.0	39	76	143	81.2	1.20	1.85*	1.38	2.05
Snap-on Tools	12	38	16	19	1.08	2.84	42.8	22	68	232	44.0	1.56	1.99	1.52	2.39
SPX	12	16	13	23	0.40	2.48	13.9	-10	48	145	40.3	1.59	0.69	0.65	1.51
Stanley Works	12	39	15	17	1.36	3.48	44.7	-10	62	258	29.7	2.15	2.31	2.17	2.79

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE																
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT. MILS	1993 MARKET VALUE CHANGE %	1993		1992 TURN- OVER %	1992 ACTUAL	I/B/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	1994 ESTIMATES	
									INSTITUTIONAL HOLDINGS % NUMBER	1993 VALUE					FROM ANALYST I/B/E/S CON- SENSUS	VA
(c) SPECIAL MACHINERY																
GROUP AVERAGE		46	15	27	0.60	1.23	47.3	52	69	268	96.7	1.06	1.85	1.93	2.76	21
Applied Materials	10	35	7	29	0.00	0.00	80.4	115	91	248	345.0	0.55	1.21*	0.77	1.78	6
Briggs & Stratton	06	82	23	17	1.76	2.14	14.5	77	72	254	76.1	3.56	4.86*	4.96	5.60	8
Caterpillar	12	85	21	31	0.60	0.70	101.6	60	72	507	87.1	-2.16	2.76	1.95	4.92	13
Clark Equipment	12	49	16	28	0.00	0.00	17.4	152	73	166	114.2	-1.60	1.76	1.71	3.06	8
Deere	10	71	31	30	2.00	2.82	85.5	81	82	499	108.9	0.49	2.39*	0.89	5.11	11
Dover	12	59	15	22	0.92	1.55	57.1	29	61	320	28.1	2.23	2.67	2.51	3.02	7
FMC	12	46	9	10	0.00	0.00	36.0	-7	65	258	44.9	5.23	4.46	5.26	4.46	2
General Signal	12	35	12	17	0.90	2.57	44.5	29	79	240	58.3	0.24	2.01	1.09	2.29	2
Harnischfeger Industries	10	23	18	NM	0.40	1.75	28.0	15	66	180	76.4	1.95	-0.67*	NA	1.11	10
Ingersoll-Rand	12	38	13	25	0.70	1.83	105.3	32	58	424	59.0	1.11	1.52	1.28	1.97	5
Interlake	12	3	-11	NM	0.00	0.00	22.0	-20	56	96	48.4	-0.84	-0.77	NA	-0.20	210
Pentair	12	35	18	16	0.68	1.93	18.1	53	63	126	106.4	2.03(b)	2.17	2.04	2.44	5
Stewart & Stevenson Services	01	51	10	29	0.24	0.48	32.9	52	66	224	140.8	1.35	1.73	1.91	2.11	2
Timken	12	32	23	61	1.00	3.09	30.8	23	55	222	42.2	0.15	0.53	0.18	1.39	24
Tyco International	06	48	21	30	0.40	0.84	46.3	15	71	279	46.3	2.06	1.58*	1.70	2.72	1
Variety	01	40	16	28	0.00	0.00	35.7	122	80	238	165.0	0.56	1.44	0.83	2.38	17
(d) TEXTILES																
GROUP AVERAGE		24	12	16	0.34	1.40	34.2	12	51	123	74.2	0.80	1.60	1.56	1.81	11
Burlington Industries Equity	09	15	8	12	0.00	0.00	68.3	4	85	137	76.9	-2.42	1.19*	NA	1.74	1
Cone Mills	12	17	5	10	0.00	0.00	27.7	19	46	83	76.9	1.68	1.71	2.68	1.90	1
Delta Woodside Industries	06	11	13	10	0.40	3.64	25.0	-37	40	81	49.0	1.62	1.07*	1.04	0.91	2
Fieldcrest Cannon	12	25	20	15	0.00	0.00	12.1	39	40	75	153.1	1.81	1.69	1.19	2.27	1
Guilford Mills	06	22	16	10	0.60	2.76	13.8	-14	47	71	43.5	1.85	2.11*	1.75	1.94	1
Interface	12	14	10	21	0.24	1.70	17.3	14	61	56	59.7	0.71(b)	0.66	0.51	0.88	10
Shaw Industries	06	48	10	33	0.36	0.76	71.7	46	66	280	87.6	0.93	1.43*	1.35	2.09	1
Springs Industries	12	42	30	15	1.20	2.87	17.6	16	43	185	37.9	2.50	2.70	2.08	3.30	1
Triarc	04	25	-2	16	0.00	0.00	21.3	37	16	42	83.9	-1.73	1.58	NA	1.40	1
Unifi	06	25	8	13	0.56	2.25	67.6	-2	65	218	73.6	1.04	1.87*	1.89	1.65	1
16 METALS & MINING																
INDUSTRY AVERAGE		27	14	32	0.47	1.37	66.9	27	56	221	95.1	-0.85	0.23	0.96	1.36	50
(a) ALUMINUM																
GROUP AVERAGE		41	25	57	0.87	1.52	67.5	-6	58	291	67.8	-0.37	-0.53	0.20	0.85	17
Aluminum Co. of America	12	69	41	57	1.60	2.31	88.3	0	81	505	86.1	0.24	1.22	0.20	2.20	31
Kaiser Aluminum	12	9	2	NM	0.00	0.00	57.3	3	9	27	20.0	0.47	-1.21	NA	-0.26	283
Reynolds Metals	12	45	33	NM	1.00	2.23	56.9	-20	84	342	97.4	-1.83	-1.59	NA	0.60	203
(b) STEEL																
GROUP AVERAGE		24	9	24	0.29	0.95	54.9	53	60	169	88.6	-1.41	0.18	0.92	1.70	23
Allegheny Ludlum	12	23	4	22	0.48	2.05	65.8	35	50	153	64.1	0.71	1.05	0.61	1.35	20
Armco	12	6	-4	NM	0.00	0.00	103.9	-11	67	181	69.9	-4.37	-0.47	NA	0.35	20
Bethlehem Steel	12	17	6	NM	0.00	0.00	91.3	10	85	244	162.8	-2.73	-0.31	NA	1.89	25
Commercial Metals	08	35	22	18	0.52	1.49	10.9	34	46	64	32.4	1.16	1.95*	1.25	2.47	12
Inland Steel Industries	12	32	8	NM	0.00	0.00	35.3	43	80	210	82.2	-5.83	-1.25	NA	2.31	22
Lukens	12	37	19	19	1.00	2.68	14.5	-11	75	158	106.0	2.31	1.95	1.79	2.64	18
National Steel	12	11	9	NM	0.00	0.00	36.4	NA	27	41	NA	-1.54	-3.39	NA	0.88	22
Nucor	12	52	10	37	0.16	0.31	87.0	34	69	349	55.5	0.92	1.40	1.23	2.14	0
USX-U. S. Steel Group	12	36	8	37	1.00	2.78	70.3	25	67	292	130.4	-4.92	0.98	0.62	2.89	15
Weirton Steel	12	7	9	NM	0.00	0.00	26.3	91	37	27	13.9	-1.57	-1.58	NA	0.59	1
Wheeling-Pittsburgh	12	17	17	18	0.00	0.00	26.4	316	64	83	200.6	-1.85	0.93	0.14	1.75	9
Worthington Industries	05	17	5	19	0.36	2.09	90.3	15	47	230	56.4	0.74	0.90	0.82	1.08	8
(c) OTHER METALS																
GROUP AVERAGE		27	15	38	0.59	2.02	87.1	1	49	280	117.1	-0.10	0.64	1.16	0.99	40
Asarco	12	19	31	NM	0.40	2.08	41.7	-23	49	207	82.6	-0.70	-1.76	NA	-0.12	133
Cyrus Amax Minerals	12	22	21	20	0.80	3.60	47.3	-29	63	304	123.9	-6.31	1.13	0.54	1.37	6
Freeport-McMoRan Copper & Gold	12	20	2	71	0.60	3.04	199.2	-8	18	193	28.8	0.66	0.28	0.38	0.57	4
Homestake Mining	12	19	4	59	0.10	0.53	137.2	71	41	305	167.0	-1.31	0.32	NA	0.45	6
Magma Copper	12	11	13	19	0.00	0.00	45.7	-20	31	120	102.0	1.37	0.55	0.83	0.50	2
Newmont Mining	12	52	9	43	0.60	1.16	68.4	27	62	345	163.9	1.30	1.22	1.24	1.36	4
Phelps Dodge	12	44	29	16	1.65	3.77	70.3	-10	81	485	151.6	4.28	2.74	2.82	2.80	1
17 NONBANK FINANCIAL																
INDUSTRY AVERAGE		232	118	15	0.87	2.15	78.2	16	59	239	63.2	6.24	7.03	9.41	8.01	4
(a) FINANCIAL SERVICES																
GROUP AVERAGE		600	287	14	0.84	2.06	96.6	15	58	290	66.3	14.47	15.11	18.35	16.69	4
Alexander & Alexander Services	12	18	7	26	1.00	5.48	41.2	-31	75	201	40.2	1.34	0.69	0.75	1.26	1
Alleghany	12	141	130	13	0.00(d)	0.00	6.7	7	61	91	9.8	9.57	10.92	9.14	11.69	1
American Express	12	31	17	11	1.00	3.19	487.8	28	73	714	72.2	0.83	2.95	1.38	3.16	1
AT&T Capital	12	26	19	17	0.09	0.35	46.9	NA	2	14	NA	1.83	1.52	NA	2.01	1
Bear Stearns	06	22	13	7	0.60(d)	2.70	114.8	30	58	255	80.0	2.45	3.00*	3.63	3.12	1
Beneficial	12	74	45	11	3.04	4.12	26.0	12	72	253	49.4	5.50	6.94	7.18	7.83	1
Berkshire Hathaway	12	17250	8115	49	0.00	0.00	1.2	47	13	144	2.9	355.00	350.00	386.09	390.00	1

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT MILS	1993	1993		1993 TURN- OVER %	1992 ACTUAL	1/8/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANAL
								MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	CON- SENSUS					
Block (H&R)	04	38	5	20	1.12	2.92	105.3	-5	70	441	52.6	1.68	1.89	2.20	2.11
Countrywide Credit Industries	02	26	13	9	0.44	1.71	60.5	20	90	262	175.5	2.28(b)	2.94	4.69	3.42
Crawford	12	16	5	14	0.44	2.75	36.0	-32	38	55	4.4	1.13	1.15	1.49	1.27
Dean Witter, Discover	12	38	20	11	0.40	1.05	170.6	NA	39	314	NA	2.65	3.52	NA	3.79
Edwards (A. G.)	02	30	15	10	0.60	2.01	46.7	28	46	180	50.5	2.58	3.07	4.32	2.57
Equifax	12	24	3	19	0.56	2.32	74.9	16	59	250	51.7	1.04(b)	1.25	1.20	1.45
Fannie Mae	12	76	28	11	2.08	2.76	272.7	-1	85	1003	63.7	6.01	6.79	9.52	7.76
Federal Home Loan Mortgage	12	48	20	12	0.88	1.83	180.3	-1	79	483	56.8	3.29	4.01	4.45	4.69
First American Financial	12	32	23	6	0.50	1.55	11.4	24	37	50	142.0	4.55	4.97	3.63	4.97
First Financial Management	12	55	20	27	0.10	0.18	59.9	37	84	342	70.1	0.27(b)	2.05	0.97	2.46
Fleet Mortgage Group	12	16	9	18	0.60	3.87	49.5	-25	15	63	29.0	2.20	0.86	NA	2.34
Household International	12	33	21	12	1.20	3.64	94.9	28	71	315	52.8	1.93(b)	2.75	2.10	3.53
Leucadia National	12	40	29	11	0.25	0.63	27.8	0	27	81	31.2	5.35	3.67	8.50	4.02
Loews	12	93	94	12	1.00	1.08	64.0	-24	53	370	45.2	-0.33	7.60	8.15	7.98
Marsh & McLennan	12	80	17	18	2.70	3.37	73.3	-12	64	431	37.5	4.21	4.52	4.46	5.23
Merrill Lynch	12	45	27	8	0.80	1.76	211.6	56	66	449	126.3	4.18	6.00	6.17	5.02
Morgan Stanley Group	01	72	41	8	1.08	1.51	73.9	25	60	268	63.4	5.90	8.87	7.88	7.72
PaineWebber Group	12	27	23	6	0.60	2.25	49.3	22	56	156	92.4	4.24	4.38	10.43	3.63
Primerica	12	40	21	12	0.50	1.25	241.9	80	73	522	76.1	3.34	3.38	3.91	4.03
Sallie Mae	12	45	12	9	1.20	2.70	85.3	-38	86	349	158.3	4.21	4.89	5.83	5.59
Salomon	12	46	34	10	0.64	1.41	110.8	20	80	339	61.8	4.18	4.34	5.66	4.63
Schwab (Charles)	12	32	6	15	0.20	0.63	57.7	86	38	125	110.4	1.39	2.10	3.99	1.91
SunAmerica	09	36	17	13	0.40	1.13	33.0	35	58	164	80.5	1.80	2.75*	3.14	3.38
Transamerica	12	56	39	12	2.00	3.58	77.6	14	60	310	35.3	4.11	4.52	2.98	4.94
(b) INSURANCE															
GROUP AVERAGE		41	31	16	0.97	2.29	69.9	10	59	221	56.8	2.06	3.00	4.08	3.73
Aetna Life & Casualty	12	61	72	13	2.76	4.52	111.6	33	76	429	53.8	-0.05	4.88	4.46	5.29
AFLAC	12	27	13	12	0.40	1.48	103.3	-2	55	263	38.5	1.79	2.26	2.53	2.59
Allmerica Property & Casualty	12	57	55	10	0.44	0.78	20.6	12	89	88	25.9	6.48	5.96	4.86	6.75
Allstate	12	30	18	11	0.18	0.61	450.0	NA	94	231	NA	-1.15	2.64	NA	2.90
American Bankers Insurance Grp.	12	24	18	9	0.68	2.33	17.9	10	58	98	111.5	2.39(b)	2.54	3.17	3.02
American General	12	27	22	10	1.10	4.09	216.7	-6	69	502	37.5	2.45	2.65	3.00	2.91
American International Group	12	86	45	15	0.40	0.46	317.5	11	53	859	38.2	5.10	5.78	6.11	6.59
American National Insurance	12	55	70	11	2.20	4.02	26.5	5	18	79	12.1	6.68	5.17	6.81	5.55
Aon	12	50	33	12	1.80	3.64	67.6	-6	47	275	22.4	2.89	4.13	3.75	4.59
Bankers Life Holding	12	21	9	9	0.08	0.38	54.6	NA	26	95	NA	1.60	2.32	NA	2.68
Capital Holding	12	38	23	11	0.73	1.91	101.3	13	72	410	42.8	3.14	3.47	3.62	3.87
CCP Insurance	12	25	22	8	0.08	0.32	26.0	10	51	62	88.0	3.52	3.07	NA	3.38
Chubb	12	81	47	35	1.72	2.14	87.7	-9	75	543	60.0	6.96	2.33	3.95	6.90
Cigna	12	63	78	16	3.04	4.81	72.4	9	82	407	52.5	4.70	4.08	4.42	5.38
Cincinnati Financial	12	52	39	15	1.12	2.15	50.2	-15	32	139	20.6	3.39	3.37	3.68	3.86
Citizens	12	20	14	11	0.20	0.99	36.1	NA	10	52	NA	2.50	1.85	NA	2.14
CNA Financial	12	76	78	69	0.00	0.00	61.8	-23	98	165	7.0	-10.79	1.10	1.43	4.61
Conseco	12	58	33	10	0.50	0.87	25.3	26	53	134	225.3	5.56(b)	5.73	11.96	6.63
Continental Corp.	12	30	39	26	1.00	3.36	55.3	11	75	288	67.5	2.14	1.13	1.11	1.71
Equitable	12	25	15	22	0.20	0.81	142.4	76	38	166	57.2	-0.32	1.14	NA	1.67
First Colony	12	26	21	12	0.26	1.01	49.3	-25	42	167	51.6	3.32	2.10	NA	2.35
Fremont General	12	25	23	9	0.72	2.94	14.2	23	60	57	89.2	2.83	2.66	3.68	3.01
Geico	12	51	20	17	0.68	1.32	70.9	-21	84	143	6.3	2.39	2.98	3.17	3.34
General Re	12	110	56	16	1.88	1.71	84.5	-5	85	616	47.0	6.84	6.93	7.70	7.91
Hartford Steam Boiler Inspection	12	45	16	36	2.12	4.71	20.7	-23	52	183	31.8	2.71	1.24	1.56	2.28
Horace Mann Educators	12	23	14	12	0.24	1.04	29.0	-19	48	97	32.1	2.48	1.99	8.33	2.26
Jefferson-Pilot	12	48	35	14	1.56	3.25	50.3	0	43	285	29.1	3.99	3.50	4.91	3.82
John Alden Financial	12	32	11	9	0.28	0.88	23.2	43	76	51	73.1	3.08	3.45	NA	3.66
Kemper	12	34	39	14	0.92	2.70	32.7	-24	65	159	158.6	-4.28	2.40	1.79	3.60
Lincoln National	12	44	33	13	1.52	3.49	94.1	32	67	358	51.1	3.91	3.27	3.71	3.73
NWNL	12	30	24	10	0.80	2.69	27.1	18	74	144	159.9	1.93(b)	3.11	2.45	3.39
Ohio Casualty	12	59	48	16	2.84	4.85	18.0	-7	51	131	47.7	5.40	3.65	4.03	4.88
Old Republic International	12	22	24	10	0.44	2.01	51.8	-10	72	164	48.1	2.95(b)	2.26	3.63	2.59
Orion Capital	12	30	26	9	0.72	2.39	14.5	18	78	104	46.9	3.06(b)	3.30	3.88	3.81
Pioneer Financial Services	12	12	10	13	0.00	0.00	6.6	135	31	21	121.8	-2.85	0.94	0.77	1.14
Progressive	12	39	12	15	0.20	0.51	72.1	45	60	200	48.5	2.09	2.64	1.99	2.92
Protective Life	12	49	22	14	1.04	2.14	13.7	59	59	101	51.5	3.11	3.57	11.30	3.93
Provident Life & Accident	12	29	26	10	1.04	3.65	45.3	0	47	126	12.6	2.49	2.97	3.11	3.49
Reliance Group Holdings	12	8	4	19	0.32	4.13	86.4	27	17	67	46.9	-0.57	0.40	0.61	0.72
Safeco	12	57	43	12	1.80	3.17	62.9	-1	67	318	91.7	4.96	4.75	5.10	5.38
Selective Insurance Group	12	30	23	18	1.12	3.76	13.7	38	44	69	61.4	1.97(b)	1.66	1.54	2.51
St. Paul	12	89	58	11	2.80	3.16	42.3	16	77	367	49.4	-5.69	8.36	9.27	8.98
TIG Holdings	12	22	18	NA	0.20	0.90	63.7	NA	58	166	NA	-0.70	-2.24	NA	1.53
Torchmark	12	44	17	11	1.12	2.55	73.7	-23	52	344	35.2	3.58	4.01	4.56	4.44
Transatlantic Holdings	12	52	29	14	0.28	0.54	22.9	-8	83	124	19.7	3.13	3.68	3.95	4.32
Travelers	12	32	33	48	1.60	5.04	145.6	18	71	341	65.0	-8.11	0.66	0.62	2.40
20th Century Industries	12	26	12	12	0.64	2.46	51.4	-9	32	96	16.4	2.29	2.13	2.78	2.41
Unitrin	12	42	39	15	1.40	3.37	51.8	-3	43	146	34.1	3.15	2.69	3.08	3.07

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT MILS.	1993	INSTITUTIONAL HOLDINGS % NUMBER	1993	1992 ACTUAL	I/B/E/S	BASED	FROM ANALYST	
								MARKET VALUE CHANGE %		TURN- OVER %		1993 ANALYST EST.	ON 5-YEAR TREND	I/B/E/S CON- SENSUS	
UNUM	12	49	27	13	0.80	1.62	79.5	9	73	364	47.3	3.70	3.71	5.17	4.20
USF&G	12	13	11	28	0.20	1.50	84.9	9	40	248	89.4	-0.16	0.48	NA	0.94
USLife	12	38	42	10	1.24	3.24	22.6	6	69	228	47.4	3.05	4.00	3.92	4.26
(c) SAVINGS & LOAN															
GROUP AVERAGE		18	22	12	0.33	1.57	59.5	49	66	156	89.0	0.17	0.02	2.77	1.60
Ahmanson (H. F.)	12	19	24	NM	0.88	4.66	116.9	-2	90	267	56.9	1.19	-1.31	NA	2.19
California Federal Bank	12	12	34	NM	0.00	0.00	25.0	-18	47	56	138.7	-10.45	-5.14	NA	-0.97
Coast Savings Financial	12	13	21	11	0.00	0.00	18.5	38	72	66	127.0	2.27	1.16	1.25	1.67
Dime Savings Bank of N. Y.	12	8	10	14	0.00	0.00	56.5	211	45	85	131.9	0.44	0.52	NA	0.68
Glendale Federal Bank	06	7	22	NM	0.00	0.00	31.8	148	36	43	41.5	NA	-4.02*	NA	-1.50
Golden West Financial	12	39	30	9	0.30	0.78	64.0	-11	69	286	46.4	4.46	4.36	5.57	4.77
Great Western Financial	12	18	16	17	0.92	5.18	131.9	2	84	281	94.2	0.30	1.03	0.60	1.99
Standard Federal Bank	12	29	22	8	0.56	1.95	31.3	24	86	163	75.3	3.00	3.54	3.68	4.00
18 OFFICE EQUIPMENT & COMPUTERS															
INDUSTRY AVERAGE		32	13	22	0.24	0.60	95.4	28	59	240	212.0	0.30	0.84	2.00	1.93
(a) BUSINESS MACHINES & SERVICES															
GROUP AVERAGE		27	8	21	0.36	1.16	47.1	68	55	165	119.3	1.09	1.36	1.39	1.68
Anacom	09	4	0	15	0.00	0.00	40.6	-10	36	60	61.6	0.42	0.26*	0.25	0.40
CUC International	01	33	2	45	0.00	0.00	111.3	83	83	299	67.7	0.56	0.75	1.27	0.97
Deluxe	12	35	9	16	1.44	4.13	82.6	-27	59	370	45.7	2.42	2.14	2.52	2.54
Egghead	03	9	8	24	0.00	0.00	17.1	-12	29	44	216.4	0.41	0.36	0.24	0.68
HON Industries	12	28	5	22	0.40	1.43	32.0	18	28	77	18.4	1.18	1.30	1.54	1.48
Intelligent Electronics	01	27	6	25	0.32(c)	1.20	34.6	97	49	119	345.2	0.58	1.09	1.39	1.48
Merisel	12	15	7	15	0.00	0.00	29.5	45	57	82	124.2	0.67	0.95	0.59	1.24
MicroAge	09	36	14	21	0.00	0.00	7.9	517	52	49	256.3	0.89	1.73*	1.34	2.20
Miller (Herman)	05	30	12	21	0.52	1.75	25.2	67	55	111	89.6	0.88	1.43	0.91	1.77
Pitney Bowes	12	42	11	18	0.90	2.14	157.8	6	76	549	35.5	1.96	2.28	2.42	2.60
Reynolds & Reynolds	09	42	10	18	0.52	1.23	27.1	72	57	172	53.9	1.62	2.40*	2.37	2.83
Standard Register	12	20	12	14	0.64	3.16	28.7	13	75	105	34.3	1.37	1.46	1.34	1.64
Tech Data	01	30	11	19	0.00	0.00	18.3	16	59	113	203.0	1.26	1.58	1.91	1.99
(b) COMPUTERS & PERIPHERALS															
GROUP AVERAGE		30	17	19	0.25	0.40	98.4	4	58	285	282.3	-0.54	0.04	2.32	1.98
Amdahl	12	6	7	NM	0.00	0.00	114.5	-23	26	157	62.4	-0.06	-1.28	NA	0.02
Apple Computer	09	32	17	43	0.48	1.52	115.6	-48	55	471	405.7	4.33	0.73*	1.31	1.80
AST Research	06	25	10	NM	0.00	0.00	31.6	18	42	106	437.0	2.16	-1.72*	NA	1.83
Compaq Computer	12	72	29	14	0.00	0.00	82.6	54	74	412	313.4	2.58	5.20	3.30	6.03
Conner Peripherals	12	13	4	NM	0.00	0.00	49.9	-33	60	153	309.6	2.19	-2.40	NA	0.90
Cray Research	12	26	29	12	0.00	0.00	26.3	16	82	198	100.4	-0.56	2.23	2.26	2.44
Data General	09	10	11	NM	0.00	0.00	34.8	-14	76	159	89.8	-1.91	-1.73*	NA	0.12
Dell Computer	01	27	8	NM	0.00	0.00	37.3	-42	29	129	924.8	2.59	-1.13	NA	1.74
Digital Equipment	06	37	36	NM	0.00	0.00	135.1	12	70	443	111.7	-18.50	-1.93*	NA	1.12
Hewlett-Packard	10	74	33	16	1.00	1.36	254.3	7	59	819	70.5	3.49	4.65*	4.08	5.46
Intergraph	12	10	15	NM	0.00	0.00	45.5	-29	46	160	85.3	0.18	-1.00	NA	0.15
International Business Machines	12	54	35	NM	1.00	1.86	578.4	8	37	922	91.7	-12.03	-0.20	NA	2.02
Maxtor	03	7	3	NM	0.00	0.00	29.4	-53	37	62	424.7	1.46	-5.34	NA	0.11
Quantum	03	14	8	NM	0.00	0.00	43.4	-5	72	165	364.5	2.05	-0.36	NA	1.30
Seagate Technology	06	24	16	9	0.00	0.00	69.4	28	69	202	427.1	0.92	2.80*	3.15	2.64
Silicon Graphics	06	44	10	36	0.00	0.00	66.5	58	73	241	128.5	-2.19	1.20*	1.56	1.65
Storage Technology	12	29	25	NM	0.00	0.00	41.6	39	64	151	347.8	0.37	-0.55	NA	2.16
Sun Microsystems	06	27	16	18	0.00	0.00	96.6	-27	78	324	397.8	1.71	1.49*	2.15	2.16
Tandem Computers	09	10	6	NM	0.00	0.00	112.9	-30	66	253	102.7	-0.38	-4.72*	NA	0.85
Tandy	12	46	22	19	0.60	1.32	63.1	53	51	286	104.2	2.24	2.43	2.04	2.97
3Com	05	36	9	18	0.00	0.00	30.3	34	65	172	1023.8	1.22	1.98	1.01	2.41
Unisys	12	12	6	9	0.00	0.00	163.1	14	32	252	140.1	1.06	1.25	NA	1.47
Western Digital	06	10	4	NM	0.00	0.00	35.4	38	44	60	236.8	-2.49	-0.79*	NA	0.35
Xerox	12	82	44	NA	3.00	3.64	103.9	14	86	547	75.3	-3.32	NA	NA	5.81
(c) COMPUTER SOFTWARE & SERVICES															
GROUP AVERAGE		41	10	26	0.11	0.43	135.2	31	66	230	177.4	0.99	1.68	2.50	2.08
Automatic Data Processing	06	55	11	27	0.52	0.94	140.4	2	70	534	41.4	1.84	2.08*	2.37	2.37
Ceridian	12	19	-2	18	0.00	0.00	43.0	24	85	181	60.5	-0.69	1.05	NA	1.27
Cisco Systems	07	56	4	42	0.00	0.00	123.7	46	85	440	454.0	0.67	1.33*	3.61	2.21
Comdisco	09	18	16	9	0.32	1.74	39.3	24	45	116	46.8	0.49	1.97*	0.99	2.17
CompUSA	06	28	9	42	0.00	0.00	18.1	1	72	123	259.4	0.64	0.67*	NA	0.77
Computer Associates International	03	40	7	19	0.14	0.35	165.9	94	56	390	78.5	1.44	2.10	1.91	2.48
Computer Sciences	03	98	44	19	0.00	0.00	16.7	27	79	248	70.6	4.66	5.28	5.56	6.08
Computervision	12	3	1	NM	0.04	1.28	48.0	-46	42	41	82.4	-3.46	-0.64	NA	0.18
Electronic Data Systems	12	29	13	19	0.40	1.40	259.6	-7	60	420	59.7	1.33	1.51	1.73	1.72
First Data	12	40	8	26	0.12	0.30	110.2	15	91	289	55.7	1.30	1.55	NA	1.83
Lotus Development	12	46	11	29	0.00	0.00	44.0	146	92	271	610.0	1.87	1.59	1.50	2.02
Microsoft	06	80	12	25	0.00	0.00	283.0	-5	37	767	168.9	2.41	3.15*	4.95	3.67
Novell	10	24	4	26	0.00	0.00	315.9	-13	65	609	240.0	0.81	0.92	1.65	1.14
Oracle Systems	05	32	2	35	0.00	0.00	284.9	124	61	407	255.6	0.49	0.90	0.69	1.14

Footnotes on page 145



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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST.	1993 DIVI- DEND RATE	YIELD %	SHRS OUT. MILS	1993	INSTITUTIONAL HOLDINGS % NUMBER	1993	1992 ACTUAL	I/B/E/S 1993 ANALYST EST.	BASED ON 5-YEAR TREND	FROM ANAL- YST CON- SENSUS	
								MARKET VALUE CHANGE %		TURN- OVER %					
19 PAPER & FOREST PRODUCTS															
INDUSTRY AVERAGE		39	24	37	1.03	3.11	82.4	8	60	318	60.7	0.47	0.83	1.11	1.88
(a) FOREST PRODUCTS															
GROUP AVERAGE		46	22	41	0.94	2.08	99.5	21	60	383	91.8	-0.10	0.85	1.32	2.30
Boise Cascade	12	23	27	NM	0.60	2.61	38.0	9	67	208	90.4	-4.79	-3.11	NA	-0.54
Georgia-Pacific	12	74	28	102	1.60	2.18	89.7	20	61	479	96.4	-0.69	0.72	0.56	2.99
Louisiana-Pacific	12	42	14	18	0.44	1.05	109.8	41	56	364	112.2	1.63	2.35	1.62	3.09
Weyerhaeuser	12	44	19	19	1.20	2.74	205.0	19	57	634	78.3	1.83	2.26	1.94	3.07
Willamette Industries	12	48	23	24	0.88	1.83	54.8	16	59	232	81.9	1.52	2.01	1.14	2.90
(b) PAPER															
GROUP AVERAGE		36	24	35	1.07	3.50	75.8	2	60	293	48.7	0.69	0.82	1.02	1.71
Bowater	12	20	20	NM	0.60	2.98	36.4	-16	66	130	70.4	-2.64	-2.25	NA	-0.86
Champion International	12	31	32	NM	0.20	0.65	93.0	7	76	321	43.0	-0.15	-1.54	NA	-0.02
Chesapeake	12	24	15	71	0.72	2.98	24.4	23	53	106	39.7	0.63	0.34	0.24	0.96
Consolidated Papers	12	45	21	28	1.28	2.84	44.0	12	27	152	52.0	1.15	1.61	1.07	2.42
International Paper	12	67	50	28	1.68	2.52	123.5	1	62	577	80.3	1.17	2.37	1.22	3.48
James River Corp. of Virginia	12	19	19	NM	0.60	3.18	81.6	2	85	263	45.9	-1.82	-0.07	NA	0.86
Kimberly-Clark	12	53	15	17	1.72	3.25	160.9	-10	65	580	45.6	2.15	3.16	2.96	3.52
Manville	12	8	6	39	1.04	12.61	122.3	-5	12	73	10.9	0.22	0.21	0.14	0.23
Mead	12	42	26	19	1.00	2.36	59.1	12	81	326	56.7	0.63	2.24	0.74	3.02
Pottlatch	12	47	31	41	1.56	3.33	29.2	2	42	217	37.8	2.71	1.14	1.14	2.53
Scott Paper	12	38	27	23	0.80	2.12	74.0	6	75	409	66.8	2.26	1.63	1.26	2.42
Union Camp	12	47	26	50	1.56	3.35	69.8	1	74	399	55.1	0.61	0.93	0.49	1.90
Westvaco	10	33	27	39	1.10	3.36	66.8	-5	56	259	28.5	2.06	0.85*	0.96	1.80
20 PUBLISHING & BROADCASTING															
INDUSTRY AVERAGE		87	27	33	0.96	1.69	111.1	20	51	301	50.3	2.78	3.79	4.35	4.37
(a) BROADCASTING															
GROUP AVERAGE		158	47	51	0.38	0.34	143.2	43	46	289	58.1	4.76	6.85	13.60	7.71
Capital Cities/ABC	12	633	249	22	0.20	0.03	16.5	25	83	469	39.1	23.45	28.24	26.40	32.93
CBS	12	308	71	17	2.00	0.65	15.5	89	87	389	96.2	10.51	18.18	13.61	18.55
Comcast	12	37	-6	NM	0.14(c)	0.38	146.1	104	28	259	73.6	-1.62	-0.72	NA	-0.45
Gaylord Entertainment	12	24	2	57	0.24	1.00	84.0	17	29	117	17.6	0.35	0.42	0.79	0.65
Tele-Communications	12	30	4	104	0.00	0.00	430.9	42	72	560	154.8	-0.08	0.29	NA	0.45
Turner Broadcasting System	12	24	-1	66	0.07	0.29	188.9	15	15	114	17.8	0.13	0.37	NA	0.49
Viacom	12	49	8	41	0.00	0.00	120.8	11	7	116	7.5	0.55	1.19	NA	1.38
(b) PUBLISHING															
GROUP AVERAGE		55	17	25	1.24	2.32	96.1	9	53	306	46.7	1.85	2.26	2.21	2.70
Commerce Clearing House	12	17	3	35	0.70	4.18	34.2	-10	27	69	10.8	-0.39	0.48	0.44	0.76
Dow Jones	12	36	15	25	0.80	2.23	99.3	31	43	249	33.3	1.17	1.45	NA	1.72
Dun & Bradstreet	12	62	10	19	2.44	3.91	177.0	7	75	692	36.6	3.10	3.35	3.33	3.73
Gannett	12	56	12	20	1.32	2.37	146.7	11	68	564	42.0	2.40	2.73	2.53	3.11
Knight-Ridder	12	58	22	21	1.40	2.43	54.7	-1	63	313	47.8	2.65	2.72	2.62	3.26
McGraw-Hill	12	70	18	NA	2.28	3.27	49.4	14	67	373	49.7	3.13	11	3.82	11
†† Because Business Week is owned by McGraw-Hill, the Scoreboard does not include forecasts of the company's earnings.															
Meredith	06	40	19	33	0.64	1.61	14.4	40	53	160	51.6	0.06	1.22*	0.25	1.41
New York Times	12	25	14	33	0.56	2.25	69.8	-17	62	246	70.0	-0.14	0.75	0.48	1.02
Reader's Digest Association	06	43	7	20	1.40	3.27	116.5	-22	35	307	49.4	1.95	2.16*	2.48	2.27
Scripps (E. W.)	12	28	10	27	0.44	1.55	74.6	15	19	61	7.0	1.43	1.05	1.15	1.20
Time Warner	12	44	3	NM	0.32	0.73	376.3	53	67	663	67.5	-1.46	-0.67	NA	-0.01
Times Mirror	12	31	14	27	1.08	3.46	128.6	0	45	294	29.9	0.44	1.17	0.45	1.48
Tribune	12	56	13	22	0.96	1.72	66.8	19	52	322	40.1	1.82	2.56	1.91	3.08
Washington Post	12	237	89	20	4.20	1.77	11.8	3	55	185	16.4	10.80	11.80	8.75	13.48
Western Publishing Group	01	18	8	22	0.00	0.00	21.0	14	65	95	148.8	0.80	0.83	0.57	1.25
21 SERVICE INDUSTRIES															
INDUSTRY AVERAGE		26	10	23	0.39	1.48	60.3	5	58	190	65.2	1.26	1.46	1.52	1.71
(a) CONSTRUCTION & ENGINEERING															
GROUP AVERAGE		28	10	19	0.58	2.16	47.3	7	58	248	65.2	1.22	1.47	1.67	1.65
EG&G	12	18	8	13	0.52	2.93	56.0	-11	66	225	47.8	1.56	1.39	1.61	1.51
Fluor	10	42	12	21	0.48	1.13	81.9	2	52	392	63.0	1.65	2.03*	2.66	2.22
Foster Wheeler	12	33	11	21	0.66	1.98	35.7	16	57	251	71.4	1.28	1.58	1.74	1.77
Jacobs Engineering Group	09	25	7	22	0.00	0.00	24.3	-6	41	98	48.3	1.11	1.15*	1.70	1.31
McDermott International	03	27	12	18	1.00	3.70	53.1	20	81	305	84.6	1.29	1.54	NA	1.84
Morrison Knudsen	12	25	12	22	0.80	3.20	32.6	23	49	214	75.9	0.44	1.12	0.64	1.26
(b) INDUSTRIAL DISTRIBUTION															
GROUP AVERAGE		31	13	21	0.34	1.38	41.1	10	58	162	79.7	1.29	1.68	1.65	2.00
Arrow Electronics	12	37	14	15	0.00	0.00	31.1	37	72	176	143.5	1.81	2.49	2.58	2.97
Avnet	06	36	26	19	0.60	1.66	40.5	20	80	222	93.3	1.42	1.91*	1.80	2.43
Bearings	06	28	19	23	0.64	2.30	7.3	24	58	56	26.9	-0.24	1.23*	0.77	1.67

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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT. MILS	1993	INSTITUTIONAL HOLDINGS % NUMBER	1993	1992 ACTUAL	I/B/E/S	BASED ON 5-YEAR TREND	FROM ANAL	
								MARKET VALUE CHANGE %		TURN- OVER %		1993 ANALYST EST.	I/B/E/S CON- SENSUS		
Fisher Scientific International	12	34	10	17	0.08	0.24	16.0	11	81	114	72.2	1.66	1.98	1.66	2.28
Genuine Parts	12	38	11	18	1.06	2.83	124.2	20	65	396	25.0	1.92	2.09	2.16	2.31
Grainger (W. W.)	12	59	18	21	0.72	1.23	50.7	-6	64	346	43.5	2.58	2.80	2.96	3.19
Kaman	12	10	9	10	0.44	4.63	18.0	-5	40	78	55.8	0.95	0.98	0.93	1.07
Marshall Industries	05	45	25	13	0.00	0.00	8.5	18	79	89	45.5	2.77	3.45	3.25	4.12
Monk-Austin	06	15	9	9	0.16	1.07	18.1	-23	14	47	29.8	1.52	1.68*	NA	1.82
Office Depot	12	32	5	51	0.00	0.00	90.9	43	68	262	86.7	0.41	0.63	0.79	0.84
Premier Industrial	05	28	5	24	0.36	1.30	85.8	5	20	131	8.7	1.02	1.16	1.21	1.31
Staples	01	35	11	34	0.00	0.00	23.3	-12	89	154	396.0	0.75	1.04	1.44	1.32
Univar	02	11	8	25	0.30	2.73	19.6	-5	17	38	9.3	0.26	0.44	0.25	0.71
(c) POLLUTION CONTROL															
GROUP AVERAGE		19	7	40	0.32	1.25	222.1	-21	50	364	48.1	0.80	0.81	1.02	1.07
Air & Water Technologies	10	15	9	94	0.00	0.00	24.8	15	62	77	35.7	-0.40	0.16	NA	0.49
Browning-Ferris Industries	09	25	9	22	0.68	2.72	171.7	-3	67	450	61.1	1.11	1.15*	0.77	1.47
Chemical Waste Management	12	8	3	30	0.00	0.00	209.1	-62	19	139	31.8	0.63	0.27	0.34	0.46
WMX Technologies	12	26	8	16	0.60	2.27	482.7	-35	50	788	64.0	1.86	1.64	1.95	1.87
(d) PRINTING & ADVERTISING															
GROUP AVERAGE		27	7	25	0.48	1.42	57.7	-9	67	211	62.5	1.60	1.68	1.81	1.71
ADVO	09	16	6	77	0.08	0.49	20.1	-8	66	81	46.1	0.89	0.21*	0.45	1.01
Banta	12	32	14	16	0.48	1.51	20.0	15	73	160	93.5	1.79	2.01	2.20	2.27
Donnelley (R. R.) & Sons	12	29	12	19	0.56	1.95	154.1	-13	72	415	30.7	1.51	1.55	1.56	1.82
Interpublic Group	12	30	7	18	0.50	1.65	75.1	-13	78	314	63.6	1.50	1.69	1.91	1.92
Omnicom Group	12	42	10	16	1.24	2.93	33.7	22	69	219	77.5	2.31	2.72	2.91	3.09
Valassis Communications	06	10	-7	5	0.00	0.00	43.3	-55	45	78	63.4	1.62	1.89*	NA	0.13
(e) OTHER SERVICES															
GROUP AVERAGE		22	10	19	0.34	1.37	36.9	13	57	129	57.1	1.23	1.33	1.33	1.63
Adia Services	12	23	17	17	0.16	0.70	12.6	37	16	35	14.7	0.97	1.35	0.91	1.60
Borg-Warner Security	12	20	1	14	0.00	0.00	22.6	NA	70	50	45.4	2.94	1.43	NA	1.95
CDI	12	12	6	31	0.00	0.00	19.7	46	29	37	14.5	0.17	0.40	0.19	0.72
Handleman	04	12	9	10	0.44	3.71	33.4	-15	65	206	74.4	1.32	1.17	1.18	1.37
InaCom	12	17	14	11	0.00	0.00	9.8	37	74	59	159.9	1.25	1.57	1.22	2.16
Kelly Services	12	28	10	23	0.64	2.28	37.7	-20	41	114	41.9	1.04	1.21	0.95	1.45
Manpower	12	16	2	30	0.00	0.00	73.6	12	88	147	41.1	-0.54	0.54	NA	0.69
Olsten	12	26	7	23	0.24	0.93	26.6	-3	76	143	101.8	0.87	1.13	0.98	1.55
PHH	04	42	27	12	1.20	2.87	17.3	4	81	160	31.9	3.26	3.62	3.48	4.08
Pinkerton's	12	20	14	14	0.00	0.00	8.2	-6	56	45	59.9	1.04	1.44	1.36	1.60
Safety-Kleen	12	15	9	22	0.36	2.48	57.7	-39	54	262	76.6	0.78	0.67	0.71	0.87
Service Corp. International	12	25	10	20	0.40	1.63	84.6	48	72	289	62.4	1.13	1.22	1.77	1.41
ServiceMaster	12	28	4	19	0.92	3.27	76.3	53	16	136	17.7	1.71	1.48	1.85	1.71
22 TELECOMMUNICATIONS															
INDUSTRY AVERAGE		44	14	19	1.48	3.24	382.0	25	42	555	55.1	1.96	2.30	2.37	2.57
(a) EQUIPMENT & SERVICES															
GROUP AVERAGE		40	8	25	0.42	1.01	421.2	45	56	548	109.4	0.71	1.38	1.87	1.77
American Telephone & Telegraph	12	55	11	17	1.32	2.42	1350.1	8	35	1198	31.8	2.86	3.17	2.24	3.32
LDDS Communications	12	43	8	25	0.00	0.00	50.2	44	52	180	144.3	-0.06	1.69	2.91	2.16
McCaw Cellular Communications	12	51	0	NM	0.00	0.00	206.8	70	38	357	128.9	-2.03	-0.46	NA	0.30
MCI Communications	12	24	9	19	0.05	0.21	540.0	26	76	712	131.9	1.11	1.29	1.36	1.48
Scientific-Atlanta	06	31	10	48	0.12	0.38	37.3	25	78	224	169.2	0.47	0.66*	0.23	1.16
Sprint	12	33	11	17	1.00	3.05	342.5	99	59	619	50.4	1.93	1.92	2.61	2.18
(b) TELEPHONE COMPANIES															
GROUP AVERAGE		46	17	17	2.02	4.36	362.4	15	35	558	28.0	2.59	2.76	2.58	2.97
Alltel	12	26	8	18	0.88	3.42	185.3	8	36	296	26.1	1.22	1.41	1.44	1.58
Ameritech	12	77	28	14	3.68	4.81	272.8	8	33	612	22.2	5.02	5.32	5.24	5.62
Bell Atlantic	12	60	19	17	2.68	4.47	436.1	18	34	698	28.9	3.23	3.45	3.48	3.66
BellSouth	12	57	29	16	2.76	4.83	496.0	12	28	710	19.3	3.38	3.52	3.33	3.77
Cincinnati Bell	12	20	10	22	0.80	3.93	64.9	25	31	121	22.7	0.56	0.94	0.57	1.16
GTE	12	37	11	17	1.88	5.05	945.1	8	43	949	28.6	1.95	2.18	2.08	2.39
Nynex	12	43	24	13	2.36	5.54	412.9	1	38	674	31.2	3.20	3.23	2.70	3.43
Pacific Telesis Group	12	57	17	20	2.18	3.84	421.4	33	40	747	37.7	2.83	2.79	2.70	2.97
Rochester Telephone	12	45	19	19	1.58	3.51	33.8	28	27	174	27.4	2.08	2.38	2.31	2.62
Southern New England Telecomms.	12	37	17	14	1.76	4.81	63.7	4	31	220	29.3	2.56	2.53	2.34	2.67
Southwestern Bell	12	43	12	17	1.51	3.55	599.4	15	37	787	24.9	2.17	2.46	2.48	2.67
U S West	12	47	11	16	2.14	4.58	417.6	23	42	712	37.4	2.86	2.90	2.31	3.06
23 TRANSPORTATION															
INDUSTRY AVERAGE		39	18	77	0.48	1.14	53.8	42	64	231	107.7	-0.72	0.89	2.06	2.31
(a) AIRLINES															
GROUP AVERAGE		46	22	561	0.03	0.06	50.6	104	52	217	158.8	-7.79	-2.98	0.75	1.33
Alaska Air Group	12	16	14	NM	0.00	0.00	13.3	-1	52	75	98.8	-6.53	-1.23	NA	0.62
America West Airlines	12	1	-10	1	0.00	0.00	25.3	586	2	15	113.1	-5.58	1.01	NA	1.45
AMR	12	66	46	NM	0.00	0.00	76.0	-1	85	463	196.9	-6.35	0.04	NA	5.07

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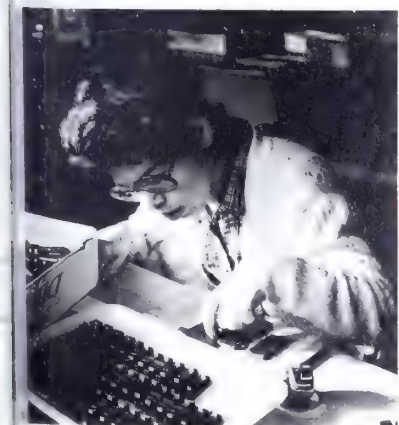
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1994 ESTIMATES

1994 ESTIMATE															
COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT. MILS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1993 TURN- OVER %	1992 ACTUAL	I/B/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	I/B/E/S CON- SENSUS	
Continental Airlines	12	27	34	NM	0.00	0.00	17.4	NA	0	7	NA	-2.70	-4.50	NA	-5.50
Delta Air Lines	06	58	39	NM	0.20	0.34	50.2	15	68	324	160.5	-10.60	-10.54*	NA	0.81
Southwest Airlines	12	35	7	34	0.04	0.12	139.1	77	60	342	81.4	0.65	1.03	0.75	1.41
UAL	12	149	52	NM	0.00	0.00	24.5	19	81	316	218.7	-17.34	-2.87	NA	7.84
USAir Group	12	13	-4	NM	0.00	0.00	59.2	31	70	192	242.2	-13.88	-6.75	NA	-1.09
(b) RAILROADS															
GROUP AVERAGE		53	20	18	1.02	1.60	110.8	35	62	424	58.5	1.94	3.07	2.24	3.78
Burlington Northern	12	57	17	17	1.20	2.09	88.8	33	75	472	85.6	3.35	3.42	3.56	4.56
Chicago & North Western Holdings	12	24	5	14	0.00	0.00	43.5	20	43	91	50.2	-0.58	1.73	NA	2.07
Conrail	12	62	34	17	1.30	2.08	79.5	31	80	430	95.3	3.28	3.57	4.23	4.23
CSX	12	83	30	18	1.76	2.12	104.0	21	60	562	56.1	0.19	4.72	0.86	6.22
Kansas City Southern Inds.	12	46	12	22	0.30	0.65	42.2	91	47	161	44.1	1.43	2.11	2.32	2.67
Norfolk Southern	12	68	33	16	1.92	2.83	138.9	9	59	575	31.3	3.94	4.34	1.99	4.89
Santa Fe Pacific	12	21	6	22	0.10	0.49	184.8	62	67	352	70.4	0.34	0.95	0.52	1.16
Union Pacific	12	64	23	17	1.60	2.52	205.0	9	65	748	35.2	3.57	3.74	2.22	4.47
(c) TRANSPORTATION SERVICES															
GROUP AVERAGE		36	15	20	0.33	1.09	40.5	31	73	210	88.6	1.20	1.81	1.41	2.31
Air Express International	12	20	6	14	0.20	0.99	11.5	-26	49	91	88.2	1.62	1.49	1.98	1.80
Airborne Freight	12	33	16	25	0.30	0.91	19.3	78	86	125	112.5	0.12	1.34	0.62	1.76
Federal Express	05	72	31	22	0.00	0.00	55.1	33	78	282	82.6	2.01	3.28	1.78	4.27
Pittston Services Group	12	27	9	22	0.20	0.75	40.9	NA	69	202	NA	0.74	1.19	1.25	1.39
Ryder System	12	29	17	18	0.60	2.05	76.9	8	80	335	70.5	1.43	1.64	1.39	2.05
Trinity Industries	03	38	14	19	0.68	1.81	39.5	64	78	226	89.2	1.27	1.94	1.46	2.58
(d) TRUCKING & SHIPPING															
GROUP AVERAGE		28	16	19	0.50	1.57	24.6	13	67	122	119.7	1.27	1.55	2.62	1.98
Alexander & Baldwin	12	25	12	16	0.88	3.59	46.3	-1	53	162	49.6	1.31	1.53	1.14	1.84
American President	12	55	34	13	0.60	1.09	13.4	46	75	147	69.8	4.86	4.29	4.75	4.74
Arkansas Best	12	13	10	15	0.04	0.30	19.2	-11	68	54	214.8	0.99	0.88	4.63	1.10
Carolina Freight	12	13	19	NM	0.20	1.57	6.6	-13	60	51	56.9	-0.96	-0.26	NA	0.59
Consolidated Freightways	12	22	13	29	0.00	0.00	35.4	24	69	164	82.7	-0.58	0.76	NA	1.31
GATX	12	38	29	12	1.40	3.73	19.7	14	77	168	46.8	0.82	3.12	1.87	3.72
Greyhound Lines	12	14	11	14	0.00	0.00	14.6	65	88	90	271.7	1.10	1.02	NA	1.40
Hunt (J. B.) Transport Services	12	24	9	23	0.20	0.85	38.4	2	36	90	89.0	1.03	1.02	1.02	1.26
Landstar System	12	18	6	16	0.00	0.00	12.3	NA	43	43	NA	0.67	1.10	NA	1.25
Roadway Services	12	67	26	22	1.40	2.08	39.4	-2	68	228	108.4	3.73	3.04	4.04	3.43
TNT Freightways	12	25	8	20	0.37	1.52	21.7	40	98	111	193.7	0.79	1.24	NA	1.48
Yellow	12	23	17	25	0.94	4.13	28.1	-17	72	153	133.1	1.46	0.90	0.92	1.59
24 UTILITIES & POWER															
INDUSTRY AVERAGE		29	18	14	1.49	5.00	126.1	8	43	284	41.2	1.78	2.12	2.13	2.22
(a) ELECTRIC, WATER & COGENERATION															
GROUP AVERAGE		30	20	13	1.69	5.59	147.0	4	40	296	39.2	1.98	2.29	2.26	2.35
Allegheny Power System	12	26	16	13	1.64	6.28	114.9	10	39	259	34.3	1.83	1.95	1.85	2.01
American Electric Power	12	36	22	13	2.40	6.64	184.5	9	30	402	33.7	2.54	2.69	2.40	2.77
American Water Works	12	30	20	13	1.00	3.33	31.2	10	48	125	21.3	2.07	2.30	2.44	2.43
Baltimore Gas & Electric	12	25	18	13	1.48	5.86	145.6	9	36	337	30.4	1.63	1.88	1.48	1.92
Boston Edison	12	29	20	13	1.70	5.91	45.0	5	31	149	38.1	2.10	2.23	2.24	2.31
Carolina Power & Light	12	29	16	13	1.64	5.66	160.7	5	32	339	35.1	2.36	2.29	2.99	2.35
Centennial Energy	12	14	19	9	1.60	11.33	145.9	-27	28	178	52.8	1.50	1.62	1.46	1.70
Central & South West	12	30	16	14	1.62	5.45	188.4	2	44	457	32.9	2.03	2.06	2.21	2.18
Cincinnati Gas & Electric	12	27	20	13	1.72	6.40	87.7	10	45	210	46.5	2.04	2.11	1.85	2.20
CMS Energy	12	25	10	13	0.72	2.85	85.0	46	56	147	80.1	-3.72	1.93	NA	2.09
Commonwealth Edison	12	28	27	14	1.60	5.64	213.6	22	54	383	43.8	2.08	1.98	0.62	1.95
Consolidated Edison Co. of N. Y.	12	31	22	12	1.94	6.23	234.0	-5	29	408	27.5	2.46	2.58	2.49	2.64
Detroit Edison	12	32	22	10	2.06	6.39	147.0	-2	37	349	39.8	3.79	3.20	3.85	2.78
Dominion Resources	12	44	26	14	2.54	5.74	167.2	14	38	392	25.9	2.66	3.14	2.93	3.21
Duke Power	12	42	21	15	1.88	4.48	204.9	16	48	423	22.4	2.21	2.75	2.74	2.85
Entergy	12	37	26	13	1.80	4.88	175.1	12	64	430	38.3	2.48	2.75	2.94	2.85
Florida Progress	12	33	20	15	1.98	6.02	88.8	2	32	248	30.9	2.06	2.24	2.08	2.34
FPL Group	12	37	22	14	2.48	6.68	189.6	6	37	444	46.4	2.65	2.73	2.36	2.79
General Public Utilities	12	30	23	11	1.70	5.71	111.0	8	64	310	64.9	2.27	2.66	2.37	2.65
Gulf States Utilities	12	19	17	20	0.00	0.00	114.1	17	61	136	33.3	0.74	0.93	0.92	1.06
Houston Industries	12	45	26	14	3.00	6.61	130.2	-1	58	415	42.1	2.63	3.22	2.86	3.40
Illinois Power	12	22	17	13	0.80	3.64	75.6	-1	57	186	58.5	1.23	1.72	1.32	2.00
Long Island Lighting	12	24	20	11	1.78	7.49	112.2	-7	48	225	56.6	2.14	2.21	2.24	2.26
New England Electric System	12	38	23	13	2.24	5.84	65.0	0	32	240	25.3	2.85	3.00	3.07	3.06
New York State Electric & Gas	12	30	23	12	2.20	7.30	70.3	-6	36	198	37.9	2.40	2.43	2.27	2.54
Niagara Mohawk Power	12	21	17	12	1.00	4.88	142.1	11	44	301	55.5	1.61	1.76	1.81	1.85
Nipscos Industries	12	32	16	14	1.32	4.16	66.2	21	59	240	54.2	2.00	2.25	2.44	2.36
Northeast Utilities	12	24	16	13	1.76	7.49	134.2	-11	28	235	39.9	2.02	1.83	1.91	2.01
Northern States Power	12	42	27	14	2.58	6.11	66.7	4	28	273	27.8	2.31	2.96	2.57	3.12
Ohio Edison	12	22	16	12	1.50	6.70	152.6	-3	40	250	25.6	1.70	1.82	1.89	1.89
Oklahoma Gas & Electric	12	35	23	12	2.66	7.65	40.3	2	32	174	62.7	2.42	2.93	2.69	2.78
Pacific Gas & Electric	12	34	20	12	1.88	5.47	432.7	5	41	450	25.2	2.58	2.81	3.10	2.75
PacifiCorp	12	19	12	14	1.08	5.65	280.2	0	31	376	37.0	0.42	1.39	0.79	1.44
Pennsylvania Power & Light	12	27	16	13	1.65	6.14	151.9	-1	26	232	21.2	2.02	2.10	2.12	2.15
Philadelphia Electric	12	28	19	12	1.52	5.40	221.5	8	33	359	39.9	1.90	2.40	1.67	2.51

Footnotes on page 145



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INVESTMENT OUTLOOK SCOREBOARD

EARNINGS PER SHARE

1994 ESTIMATES

COMPANY	FY	RECENT SHARE PRICE	BOOK VALUE PER SHARE	P/E RATIO 1993 EST	1993 DIVI- DEND RATE	YIELD %	SHRS OUT. MILS	1993 MARKET VALUE CHANGE %	INSTITUTIONAL HOLDINGS % NUMBER	1993 TURN- OVER %	1992 ACTUAL	1/8/E/S 1993 ANALYST EST	BASED ON 5-YEAR TREND	FROM ANA- LYST 1/8/E/S CON- SENSUS
Pinnace West Capital	12	21	19	11	0.20	0.95	87.3	4	66	197	48.0	1.73	1.96	1.99
Potomac Electric Power	12	26	17	13	1.64	6.37	116.8	10	17	246	30.3	1.66	1.95	1.98
Public Service Co. of Colorado	12	30	19	12	2.00	6.69	60.1	7	31	197	53.1	2.16	2.44	2.38
Public Service Enterprise Group	12	32	21	12	2.16	6.67	242.7	8	33	434	39.5	2.17	2.63	2.69
San Diego Gas & Electric	12	25	13	14	1.48	5.92	116.5	5	17	156	15.9	1.77	1.82	1.90
SCorcor	12	20	13	12	1.42	6.97	447.8	-7	33	473	31.7	1.66	1.65	1.61
Southern	12	43	24	14	2.28	5.27	319.9	14	30	502	24.9	3.02	3.13	3.09
Texas Utilities	12	43	30	13	3.08	7.20	222.9	3	52	563	55.9	2.88	3.34	2.94
Union Electric	12	39	22	14	2.32	6.01	102.1	3	30	288	28.6	2.83	2.84	3.01
Western Resources	12	34	23	13	1.94	5.73	61.5	14	35	219	39.8	2.20	2.68	2.42
Wheelabrator Technologies	12	16	6	19	0.06	0.37	186.5	-14	33	226	36.1	0.94	0.83	1.30
Wisconsin Energy	12	27	15	15	1.35	4.99	104.8	4	31	281	25.8	1.67	1.86	1.78
Zurn Industries	03	27	20	15	0.88	3.21	12.5	-30	66	163	66.3	2.20	1.88	1.63

(b) GAS, OIL & TRANSMISSION

GROUP AVERAGE		27	15	17	0.95	3.44	70.4	19	51	252	46.5	1.26	1.68	1.75	1.88
Arkla	12	8	5	22	0.28	3.56	122.3	-7	40	257	59.6	-0.01	0.36	0.14	0.52
Associated Natural Gas	09	33	15	21	0.12	0.37	13.0	18	77	80	22.8	0.93	1.56*	2.81	1.95
Atlanta Gas Light	09	36	21	17	2.08	5.74	24.7	-3	19	122	22.2	2.26	2.16*	2.18	2.26
Brooklyn Union Gas	09	26	16	15	1.32	5.03	44.3	19	27	147	26.4	1.35	1.73*	1.48	1.77
Columbia Gas System	12	24	23	9	0.00	0.00	50.6	24	63	187	63.3	1.79	2.53	2.04	2.72
Consolidated Natural Gas	12	46	23	19	1.92	4.16	92.9	2	45	435	28.5	2.19	2.41	2.19	2.71
Eastern Enterprises	12	27	22	22	1.40	5.19	22.7	-1	67	204	49.5	1.67	1.21	1.13	1.99
Enron	12	31	10	20	0.75	2.41	240.7	36	53	513	47.9	1.43	1.55	2.01	1.81
Enserch	12	18	9	26	0.20	1.14	66.6	25	68	241	57.6	-0.39	0.67	0.27	0.88
MCN	12	35	15	15	0.00	0.00	29.4	14	44	164	41.4	2.11	2.34	1.91	2.47
National Fuel Gas	09	33	20	16	1.54	4.61	36.6	22	29	151	27.6	1.94	2.15*	2.09	2.26
Nicor	12	28	13	14	1.22	4.44	54.4	8	50	288	39.5	1.92	2.00	2.01	2.10
Pacific Enterprises	12	26	12	14	1.20	4.68	83.9	54	41	221	51.7	1.60	1.80	1.37	1.84
Panhandle Eastern	12	21	14	14	0.80	3.76	119.4	40	64	327	51.7	1.73	1.49	1.77	1.62
Peoples Energy	09	29	19	14	1.78	6.11	34.8	-3	35	217	25.3	2.06	2.11*	1.97	2.19
Sonat	12	31	15	19	1.08	3.50	87.1	30	68	403	72.1	1.18	1.64	1.41	1.86
Transco Energy	12	15	10	19	0.60	4.07	40.4	4	49	188	59.3	-2.35	0.79	NA	1.04
Williams	12	27	15	16	0.84	3.10	102.7	54	74	393	90.6	1.25	1.67	3.03	1.90

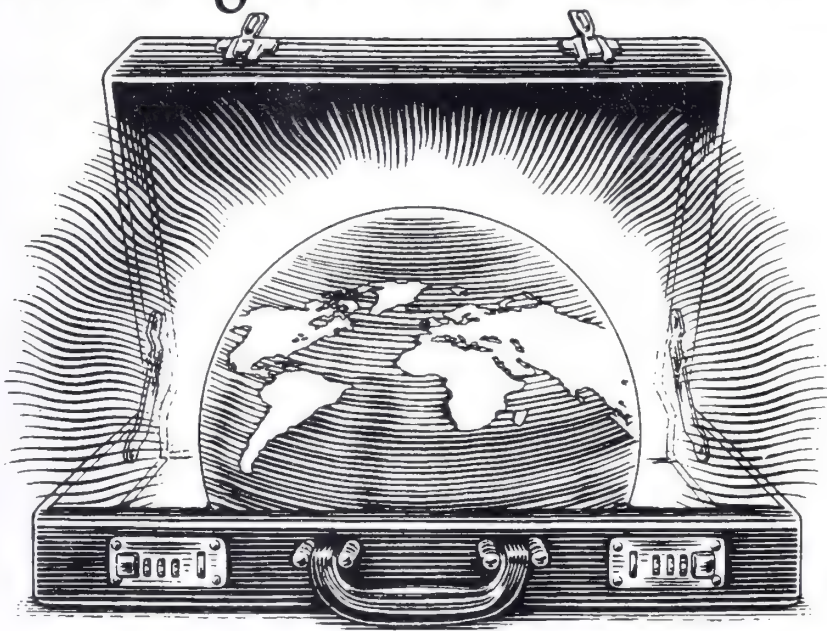
ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A	American Express 17a	Automatic Data 18c	Bindley Western Inds. 12a	Carnival Cruise Lines 14d	CMS Energy 24a	Cooper Tire & Rubber 2c	Dole Food 10c
A&P 10c	American General 17b	AutoZone 8	Black & Decker 15b	Carolina Freight 23d	CNA Financial 17b	Coors (Adolph) 6c	Dollar General
Abbott Laboratories 12d	American Greetings 14d	Avery Dennison 15a	Block (H&R) 17a	Carolina Power 24a	Coast Savings 17c	CoreStates Financial 3a	Dominion Resources
Actavis Group 5	American Home 12b	Avnet 21b	Blockbuster Ent. 14b	Carter Hawley Hale 8	Coastal 11b	Corning 15a	Donnelley (R)
Adia Services 21e	American Intl. Group 17b	Avon Products 6d	Blount 15b	Carter-Wallace 12b	Coca-Cola 6c	Countrywide Credit 17a	Dover 15c
Advanced Micro 9d	American Medical 12c	B	Boatmen's Bancshares 3b	Caterpillar 15c	Coca-Cola Bottling 6c	CPC International 10b	Dow Chemical
ADVOC 21d	American National 17b	Baker Hughes 11c	Bob Evans Farms 14a	CBI Industries 11c	Coca-Cola Enterprises 6c	Crane 15a	Dow Jones
Aetna Life & Casualty 17b	American President 23d	Ball 7a	Boeing 1	CBS 20a	Colgate-Palmolive 6d	Crawford 17a	Dr Pepper/Se
AFLAC 17b	American Stores 10c	Baltimore G&E 24a	Boise Cascade 19a	CCP Insurance 17b	Coltec Industries 5	Cray Research 18b	Dresser Indust
Ahmanson (H F) 17c	American Water Works 24a	Banc One 3b	Borden 10b	CDI 21e	Columbia Gas 24b	Crestar Financial 3c	Drug Empori
Air & Water Techs 21c	Ameritech 22b	Bancorp Hawaii 3d	Borg-Warner Security 21e	Centerior Energy 24a	Columbia Healthcare 12c	Crown Central Petroleum 11b	Duke Power
Air Express Intl. 23c	Ametek 9c	Bandag 2c	Boston Edison 24a	Centex 13b	Comcast 20a	Crown Cork & Seal 7a	Dun & Bradst
Air Products & Chemicals 4	Amgen 12b	Bank of Boston 3a	Bowater 19b	Central & South West 24a	Comdisco 18c	CSX 23b	DuPont
Airborne Freight 23c	Amoco 11b	Bank of New York 3a	Bradlees 8	Ceridian 18c	Comerico 3b	CUC International 18a	Duracell Intern
Alaska Air Group 23a	AMP 9d	BankAmerica 3d	Briggs & Stratton 15c	Champion Intl. 19b	Commerce Clearing 20b	Cummins Engine 2b	E
Alberto-Culver 6d	AMR 23a	Bankers Life Holding 17b	Brinker International 14a	Charming Shoppes 8	Commercial Metals 16b	Cyprus Amax Minerals 16c	E-Systems 9b
Albertson's 10c	AmSouth Bancorporation 3c	Bankers Trust 3a	Bristol-Myers Squibb 12b	Charter Medical 12c	Commonwealth Ed 24a		Eastern Enter
Alco Standard 5	Anacomp 18a	Banks Trust 3a	Brooklyn Union Gas 24b	Chase Manhattan 3a	Compaq Computer 18b		Eastman Kod
Alcoa 16a	Anheuser-Busch 6c	Banta 21d	Brown Group 6a	Chemical Banking 3a	CompUSA 18c		Eaton 2b
Alexander & Alexander 17a	Aon 17b	Bard (C.R.) 12d	Brown-Forman 6c	Chemical Waste 21c	Computer Associates 18c		Echlin 2b
Alexander & Baldwin 23d	Apple Computer 18b	Barnett Banks 3c	Browning-Ferris 21c	Chesapeake 19b	Computer Sciences 18c		Ecolab 6d
Allegheny 17a	Applied Materials 15c	Baroid 11c	Bruno's 10c	Chevron 11b	Computervision 18c		Edison Brothi
Allegheny Ludlum 16b	Archer Daniels 10b	Bausch & Lomb 12d	Brunswick 14d	Chazap & North Western 23b	ConAgra 10b		EG&G 21a
Allegheny Power 24a	Arco Chemical 4	Baxter International 12d	Burlington Coat Factory 8	Chiquita Brands Intl 10b	Cone Mills 15d		Egghead 18
Allergan 12b	Arkansas Best 23d	Bear Stearns 17a	Burlington Industries 15d	Chrysler 2a	Conner Peripherals 18b		Electronic De
Alliant Techsystems 15a	Armo 16b	Bearings 21b	Burlington Northern 23b	Chubb 17b	Conrail 23b		Emerson Ele
AlliedSignal 5	Armstrong World 6b	Beckman Instruments 9c	Burlington Resources 11b	Cigna 17b	Conseco 17b		Engelhard 4
Alliance Property & Cas. 17b	Arrow Electronics 21b	Becton, Dickinson 12d		Cincinnati Bell 22b	Consolidated Edison 24a		Enron 24b
Allstate 17b	Arvin Industries 2b	Bell Atlantic 22b		Cincinnati Financial 17b	Cons. Freightways 23d		Enserch 24i
Alltel 22b	Asarco 16c	BellSouth 22b		Cincinnati G&E 24a	Cons. Natural Gas 24a		Entergy 24i
Amdahl 18b	Ashland Oil 11b	Bemis 7b		Cincinnati Milacron 15b	Consolidated Papers 19b		Equifax 17c
Amara Hess 11b	Associated Natural Gas 24b	Beneficial 17a		Circuit City Stores 6b	Consolidated Stores 8		Equitable 12
America West 23a	AST Research 18b	Bergens Brunswig 12a		Circuit City Stores 6b	Continental Corp. 17b		Ethyl 4
American Bankers Ins. 17b	Atlanta Gas Light 24b	Berkshire Hathaway 17a		Cisco Systems 18c	Continental Airlines 23a		Exxon 11b
American Brands 6e	Atlantic Richfield 11b	Best Buy 6b		Citigroup 3a	Continental Baking Grp. 10b		Continue
American Cyanamid 4	AT&T 22a	Bethlehem Steel 16b		Citizens 17b	Continental Bank 3b		
American Electric 24a	AT&T Capital 17a	Betz Laboratories 4		Clark Equipment 15c	Continental Medical 12c		
		Beverly Enterprises 12c		Clorox 6d	Cooper Industries 9a		

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INVESTMENT OUTLOOK SCOREBOARD

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

Continued from p. 176
F

F&M Distributors **8**
Family Dollar Stores **8**
Fannie Mae **17a**
Fay's **12a**
Federal Express **23c**
Federal Home Loan **17a**
Federal Paper Board **7b**
Federal-Mogul **2b**
Federated Dept. Stores **8**
Ferro **4**
FHP International **12c**
Fieldcrest Cannon **15d**
Fifth Third Bancorp **3b**
Figgie International **5**
Fingerhut **8**
First American Finl. **17a**
First Bank System **3b**
First Brands **15a**
First Chicago **3b**
First Colony **17b**
First Data **18c**
First Fidelity **3a**
First Financial Mgmt. **17a**
First Interstate Bancorp **3d**
First of America Bank **3b**
First Union **3c**
Firststar **3b**
Fisher Scientific **21b**
Flagstar **14a**
Fleet Financial Group **3a**
Fleet Mortgage Group **17a**
Fleetwood Ent. **14d**
Fleming **10a**
Florida Progress **24a**
Flowers Industries **10b**
Fluor **21a**
FMC **15c**
Food Lion **10c**
Foodmaker **14a**
Ford Motor **2a**
Foster Wheeler **21a**
Foundation Health **12c**
FoxMeyer **12a**
FPL Group **24a**
Freeport-McMoran **4**
Freeport-McMoran C&G **16c**
Fremont General **17b**
Fruit of the Loom **6a**
Fuller (H.B.) **4**

G

Gannett **20b**
Gap **8**
GATX **23d**
Gaylord Ent. **20a**
Geico **17b**
GenCorp **1**
General Dynamics **1**
General Electric **5**
General Instrument **9b**
General Mills **10b**
General Motors **2a**
General Public Uts. **24a**
General Re **17b**
General Signal **15c**
Genuine Parts **21b**
Geon **4**
Georgia Gulf **4**
Georgia-Pacific **19a**
Gerber Products **10b**
Giant Food **10c**
Giddings & Lewis **15b**
Gillette **6d**
Glendale Federal Bank **17c**
GM Hughes Electronics **9b**
Golden West **17c**
Goodrich (B.F.) **4**
Goodyear Tire & Rubber **2c**
Grace (W.R.) **4**

Grainger (W.W.) **21b**
Great A&P **10c**
Great Lakes Chemical **4**
Great Western **17c**
Greyhound Lines **23d**
Grossman's **8**
Grumman **1**
GTE **22b**
Guilford Mills **15d**
Gulf States Utilities **24a**

H

Halliburton **11c**
Handleman **21e**
Hanna (M.A.) **4**
Hannaford Brothers **10c**
Harcourt General **5**
Harley-Davidson **14d**
Harman International **14d**
Harnischfeger **15c**
Harris **9b**
Harsco **15a**
Hartford Steam **17b**
Hartmarx **6a**
Hasbro **14d**
HCA **12c**
Healthtrust **12c**
Hechinger **8**
Heilig-Meyers **6b**
Heinz (H.J.) **10b**
Helene Curtis Industries **6d**
Hercules **4**
Hershey Foods **10b**
Hewlett-Packard **18b**
Hillbrand **15a**
Hillhaven **12c**
Hilton Hotels **14c**
Holly **11b**
Home Depot **8**
Home Shopping **8**
Homestake Mining **16c**
HON Industries **18a**
Honeywell **9c**
Hook-Supercor **12a**
Horace Mann **17b**
Hormel Foods **10b**
Household International **17a**
Houston Industries **24a**
Huffy **14d**
Humana **12c**
Hunt (J.B.) **23d**
Huntington Bancshares **3b**

I

IBM **18b**
IBP **10b**
Illinois Power **24a**
Illinois Tool Works **15a**
IMC Fertilizer **4**
Imcera Group **12d**
Imo Industries **9c**
InaCom **21e**
Ingersoll-Rand **15c**
Inland Steel **16b**
Integra Financial **3a**
Intel **9d**
Intelligent Electronics **18a**
Intercor **6b**
Interface **15d**
Intergraph **18b**
Interlake **15c**
International Flavors **4**
Intl. Multifoods **10b**
International Paper **19b**
Interpublic Group **21d**
Interstate Bakeries **10b**
Itel **5**
ITT **5**

J

Jacobs Engineering **21a**
James River **19b**

Jefferson-Pilot **17b**
John Alden Finl. **17b**
Johnson & Johnson **12d**
Johnson Controls **9c**
Jostens **15a**

K

Kaiser Aluminum **16a**
Kaman **21b**
Kansas City Southern **23b**
Kaufman & Broad **13b**
Kellogg **10b**
Kellwood **6a**
Kelly Services **21e**
Kemper **17b**
Kendall International **12d**
Kennametal **15b**
Kerr-McGee **11b**
KeyCorp **3a**
Kimball International **6b**
Kimberly-Clark **19b**
Kmart **8**
Knight-Ridder **20b**
Kohl's **8**
Kroger **10c**

L

La-Z-Boy Chair **6b**
Lafarge **13a**
Lancaster Colony **10b**
Landstar System **23d**
Lands' End **8**
LDOS Communications **22a**
Leggett & Platt **6b**
Leucadia National **17a**
Levitz Furniture **6b**
Lilly (Eli) **12b**
Limited **8**
Lincoln National **17b**
Litton Industries **9b**
Liz Claiborne **6a**
Lockheed **1**
Lodite **4**
Loews **17a**
Long Island Lighting **24a**
Longview Drug Stores **12a**
Longspring Fibre **7b**
Loral **9b**
Lotus Development **18c**
Louisiana Land **11b**
Louisiana-Pacific **19a**
Lowe's **8**
LSI Logic **9d**
LTV **5**

M

Magma Copper **16c**
MagneTek **9a**
Manor Corp **12c**
Manpower **21e**
Manville **19b**
Mapco **11b**
Marion Merrell Dow **12b**
Mark IV Industries **15a**
Marriott Intl. **14a**
Marsh & McLennan **17a**
Marsh Supermarkets **10c**
Marshall Industries **21b**
Martin Marietta **1**
Masco **6b**
MascoTech **2b**
Mattel **14d**
Maxtor **18b**
Maxus Energy **11b**
May Department Stores **8**
Maytag **6b**
McCaw Cellular **22a**
McCormick **10b**
McDermott Intl. **21a**

McDonald's **14a**
McDonnell Douglas **1**
McGraw-Hill **20b**
MCI Communications **22a**
McKesson **12a**
MCN **24b**
Mead **10b**
Medical Care America **12c**
Medtronic **12d**
Mellon Bank **3a**
Melville **8**
Mercantile Stores **8**
Merck **12b**
Meredith **20b**
Meridian Bancorp **3a**
Merisel **18b**
Merrill Lynch **17a**
Merry-Go-Round **8**
Meyer (Fred) **8**
MicroAge **18a**
Micron Technology **9d**
Microsoft **18c**
Midlantic **3a**
Miller (Herman) **18a**
Millipore **9c**
Minnesota Mining **15a**
Mirage Resorts **14c**
Mitchell Energy **11b**
Mobil **11b**
Molex **9d**
Monk-Austin **21b**
Monsanto **4**
Morgan (J.P.) **3a**
Morgan Stanley **17a**
Morrison Knudsen **21a**
Morrison Restaurants **14a**
Morton International **4**
Motorola **9b**
Murphy Oil **11b**
Musicland Stores **14d**

N

Nacco Industries **11a**
Nalco Chemical **4**
National City **3b**
National Fuel Gas **24b**
National Health Labs. **12c**
National Medical **12c**
National Semicon. **9d**
National Service **9a**
National Steel **16b**
NationsBank **3c**
Navistar International **2a**
NBD Bancorp **3b**
Neiman Marcus Group **8**
New England Electric **24a**
New York State E&G **24a**
New York Times **20b**
Newell **15a**
Newmont Mining **16c**
Niagara Mohawk **24a**
Nicox **24b**
Nike **6a**
Nipso Industries **24a**
Nordstrom **8**
Norfolk Southern **23b**
Northeast Utilities **24a**
Northern States **24a**
Northern Trust **3b**
Northrop **1**
Norwest **3b**
Novell **18b**
Nucor **16b**
NWNL **17b**
Nynex **22b**

O

Occidental Pet **11b**
Office Depot **21b**
Ogden **5**
Ohio Casualty **17b**
Ohio Eastern **24a**

Oklahoma G&E **24a**
Old Republic Intl. **17b**
Olin **4**
Olsten **21e**
Omnicom Group **21d**
Oracle Systems **18c**
Orion Capital **17b**
Oryx Energy **11b**
Oshkosh Truck **2a**
Outboard Marine **14d**
Owens & Minor **12d**
Owens-Corning **13a**
Owens-Illinois **7a**

P

Paccor **2a**
Pacific Enterprises **24b**
Pacific G&E **24a**
Pacific Telesis Group **22b**
PacificCare Health **12c**
PacificCorp **24a**
PaineWebber Group **17a**
Pall **5**
Pallhandle Eastern **24b**
Paramount Communs. **14b**
Parker Hannifin **15a**
Payless Cashways **8**
Penn Central **5**
Penn Traffic **10c**
Penney (J.C.) **8**
Pennsylvania Power **24a**
Pennzoil **11b**
Pentair **15c**
Peoples Energy **24b**
Pep Boys **8**
PepsiCo **6c**
Perkin-Elmer **9c**
Perry Drug Stores **12a**
Pet **10b**
Petrie Stores **8**
Pfizer **12b**
Phelps Dodge **16c**
PHH **21e**
Philadelphia Electric **24a**
Philip Morris **6e**
Phillips Petroleum **11b**
Phillips-Van Heusen **6a**
Pier 1 Imports **6b**
Pinkerton's **21e**
Pinnacle West **24a**
Pioneer Financial Services **17b**
Pioneer Hi-Bred **10b**
Piney Bowes **18a**
Pittston Minerals **11a**
Pittston Services **23c**
Ply Gem Industries **13a**
PNC Bank **3a**
Polaroid **14d**
Potlatch **19b**
Potomac Electric **24a**
PPG Industries **13a**
Praxair **4**
Premark International **5**
Premier Industrial **21b**
Price/Costco **8**
Primerica **17a**
Procter & Gamble **6d**
Progressive **17b**
Promus **14c**
Protective Life **17b**
Provident Life **17b**
PS Co. of Colorado **24a**
Public Service Ent. **24a**
Pulte **13b**

S

Safeco **17b**
Safety-Kleen **21e**
Safeway **10c**
Sallie Mae **17a**
Salomon **17a**
San Diego G&E **24a**
Santa Fe Pacific **23b**
Sara Lee **10b**
Savannah Foods **10b**
SCCorp **24a**
Schering-Plough **12b**
Schlumberger **11c**
Schulman (A.) **4**
Schwab (Charles) **17a**
SCI Systems **9d**
Scientific Atlanta **22a**
Scott Paper **19b**
Scripps (E.W.) **20b**
Seagate Technology **18b**
Sears, Roebuck **8**
Selective Insurance Group **17b**
Sequa **1**
Service Corp. Intl. **21e**
Service Merchandise **8**
ServiceMaster **21c**
Shaw Industries **15d**
Shawmut National **3a**
Sherwin-Williams **13a**
Shoney's **14a**
ShopKo Stores **8**
Sigma-Aldrich **12b**
Signet Banking **3c**
Silicon Graphics **18b**
Smart & Final **10a**
Smith's Food & Drug **10c**
Smithfield Foods **10b**
Snap-on Tools **15b**
Society **3b**
Sonat **24b**
Sonoco Products **7b**
Southern **24a**
Southern New Eng. Tel. **22b**
SouthTrust **3c**
Southwest Airlines **23a**
Southwestern Bell **22b**
Spiegel **8**
Springs Industries **15d**
Sprint **22a**
SPX **15b**

Q

Quaker Oats **10b**
Quaker State **11b**
Quantum **18b**
QVC Network **8**

R

Ralston Purina Group **10b**
Raychem **9a**
Raytheon **9b**
Reader's Digest **20b**
Reebok International **6a**
Reliance Electric **9a**
Reliance Group **17b**
Republic New York **3a**
Revco D.S. **12a**
Reynolds & Reynolds **18a**
Reynolds Metals **16a**
Rhone-Paulenc Rorer **12b**
Richford Holdings **10a**
Rite Aid **12a**
Riverwood Intl. **7b**
RJR Nabisco **6e**
Roadway Services **23d**
Rochester Telephone **22b**
Rockwell International **5**
Rohm & Haas **4**
Rohr **1**
Ross Stores **8**
Rouse **13b**
RPM **13a**
Rubbermaid **15a**
Ruddick **10c**
Russell **6a**
Ryder System **23c**
Ryland Group **13b**

S

Safeco **17b**
Safety-Kleen **21e**
Safeway **10c**
Sallie Mae **17a**
Salomon **17a**
San Diego G&E **24a**
Santa Fe Pacific **23b**
Sara Lee **10b**
Savannah Foods **10b**
SCCorp **24a**
Schering-Plough **12b**
Schlumberger **11c**
Schulman (A.) **4**
Schwab (Charles) **17a**
SCI Systems **9d**
Scientific Atlanta **22a**
Scott Paper **19b**
Scripps (E.W.) **20b**
Seagate Technology **18b**
Sears, Roebuck **8**
Selective Insurance Group **17b**
Sequa **1**
Service Corp. Intl. **21e**
Service Merchandise **8**
ServiceMaster **21c**
Shaw Industries **15d**
Shawmut National **3a**
Sherwin-Williams **13a**
Shoney's **14a**
ShopKo Stores **8**
Sigma-Aldrich **12b**
Signet Banking **3c**
Silicon Graphics **18b**
Smart & Final **10a**
Smith's Food & Drug **10c**
Smithfield Foods **10b**
Snap-on Tools **15b**
Society **3b**
Sonat **24b**
Sonoco Products **7b**
Southern **24a**
Southern New Eng. Tel. **22b**
SouthTrust **3c**
Southwest Airlines **23a**
Southwestern Bell **22b**
Spiegel **8**
Springs Industries **15d**
Sprint **22a**
SPX **15b**

T

TakeCare **12c**
Tambbrands **6d**
Tandem Computers **18b**
Tandy **18b**
Tech Data **18a**
Tecomseh Products **13a**
Tektronix **9c**
TeleCommunications **20a**
Teldyne **5**
Temple-Inland **7b**
Tenneco **5**
Terra Inds. **4**
Tesoro Petroleum **11b**
Texaco **11b**
Texas Industries **13a**
Texas Instruments **9d**
Texas Utilities **24a**
Textron **5**
Thermo Electron **9c**
Thiokol **1**
Thomas & Betts **9a**
Thom Apple Valley **10b**
3Com **18b**
3M **15a**
TIG Holdings **17b**
Time Warner **20b**
Times Mirror **20b**
Timken **15c**
TJX **8**
TNT Freightways **23d**
Torchmark **17b**
Toro **6b**
Tosco **11b**
Toys 'R' Us **8**
Transamerica **17a**
Transatlantic Holdings **17b**
Transco Energy **24a**
Travelers **17b**
Triarc **15d**
Tribune **20b**
Trinity Industries **23c**
Trinova **15a**
TRW **5**
Turner Broadcasting **20b**
20th Century Industries **17a**
Tyco International **15c**
Tyco Toys **14d**
Tyson Foods **10b**

U

U.S. Bancorp **3d**
U.S. Healthcare **12c**
U.S. Home **13b**
U.S. Shoe **8**
U.S. Surgical **12d**
UAL **23a**

Standard Commercial **6e**
Standard Federal Bank **17c**
Standard Products **2b**
Standard Register **18a**
Stanhome **6d**
Stanley Works **15b**
Staples **21b**
State Street Boston **3a**
Stewart & Stevenson **15c**
Stone Container **7b**
Stop & Shop **10c**
Storage Technology **18b**
Strawbridge & Clothier **8**
Sun **11b**
Sun Microsystems **18b**
SunAmerica **17a**
Sunbeam-Oster **6b**
Sundstrand **1**
SunTrust Banks **3c**
Super Food Services **10a**
Supervalu **10a**
Syntex **12b**
Sysco **10a**

T

TakeCare **12c**
Tambbrands **6d**
Tandem Computers **18b**
Tandy **18b**
Tech Data **18a**
Tecomseh Products **13a**
Tektronix **9c**
TeleCommunications **20a**
Teldyne **5**
Temple-Inland **7b**
Tenneco **5**
Terra Inds. **4**
Tesoro Petroleum **11b**
Texaco **11b**
Texas Industries **13a**
Texas Instruments **9d**
Texas Utilities **24a**
Textron **5**
Thermo Electron **9c**
Thiokol **1**
Thomas & Betts **9a**
Thom Apple Valley **10b**
3Com **18b**
3M **15a**
TIG Holdings **17b**
Time Warner **20b**
Times Mirror **20b**
Timken **15c**
TJX **8**
TNT Freightways **23d**
Torchmark **17b**
Toro **6b**
Tosco **11b**
Toys 'R' Us **8**
Transamerica **17a**
Transatlantic Holdings **17b**
Transco Energy **24a**
Travelers **17b**
Triarc **15d**
Tribune **20b**
Trinity Industries **23c**
Trinova **15a**
TRW **5**
Turner Broadcasting **20b**
20th Century Industries **17a**
Tyco International **15c**
Tyco Toys **14d**
Tyson Foods **10b**

V

Valassis Commu. **10b**
Valero Energy **10b**
Valspar **13a**
Value City **8**
Varian Associates **10b**
Vanity **15c**
Venture Stores **10b**
VF **6a**
Viacom **20a**
Visday Intertech **10b**
Vons **10c**
Vulcan Materials **10b**

W

Waban **8**
Wachovia **3c**
Wal-Mart Stores **10b**
Walgreen **12a**
Wamaco Group **10b**
Warner-Lambert **10b**
Washington Post **10b**
Weirton Steel **10b**
Wellman **4**
WellPoint Health **10b**
Wells Fargo **3c**
Wendy's Intern. **10b**
Western Digital **10b**
Western Publishing **10b**
Western Resort **10b**
Westinghouse **10b**
Westvaco **19b**
Weyerhaeuser **10b**
Wheelabrator **10b**
Wheeling-Pitts. **10b**
Whirlpool **6b**
Whitman **5**
Willamette Ind. **10b**
Williams **24a**
Winn-Dixie St. **10b**
Wisconsin Ent. **10b**
Witco **4**
WLR Foods **10b**
WMAX Technol. **10b**
Woolworth **8**
Worthington **10b**
Wrigley (Wa.) **10b**

XYZ

Xerox **18b**
Yellow **23d**
York Internat. **10b**
Zenith Electr. **10b**
Zurn Industr. **10b**

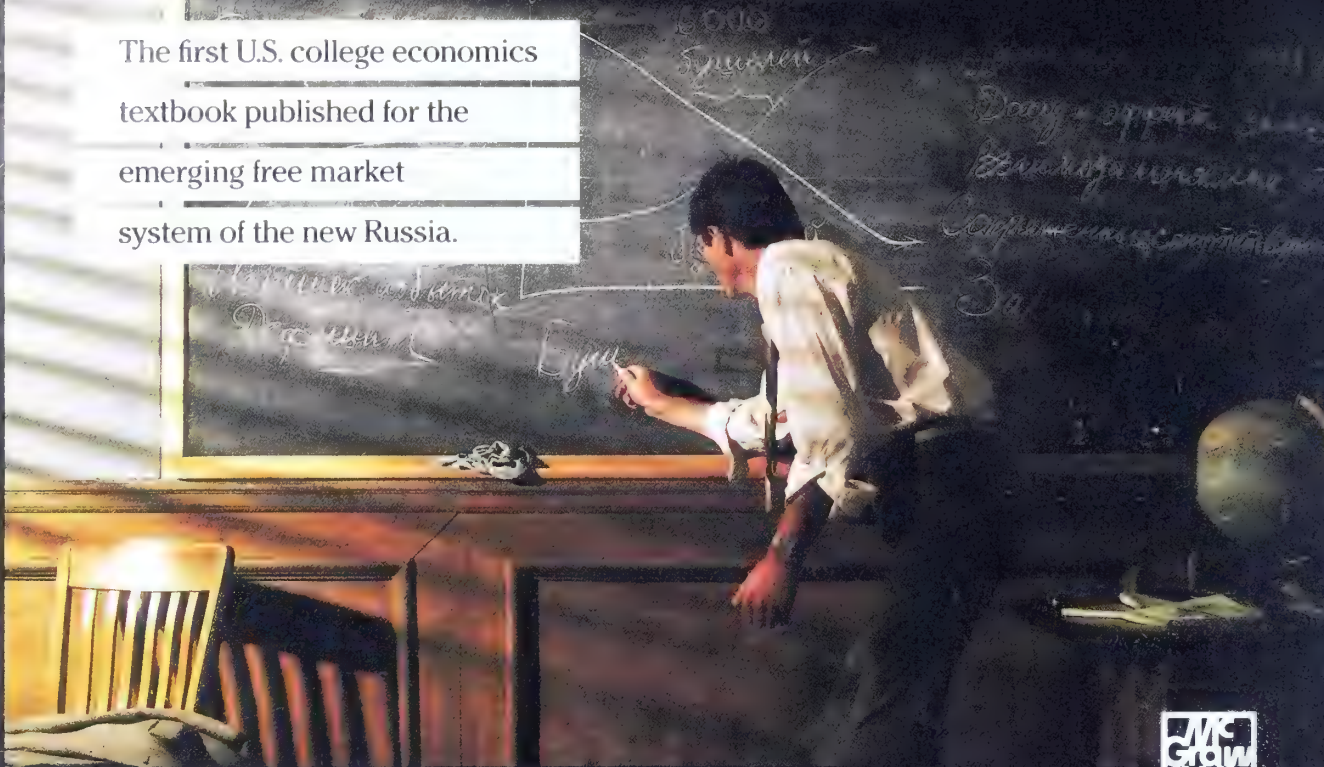


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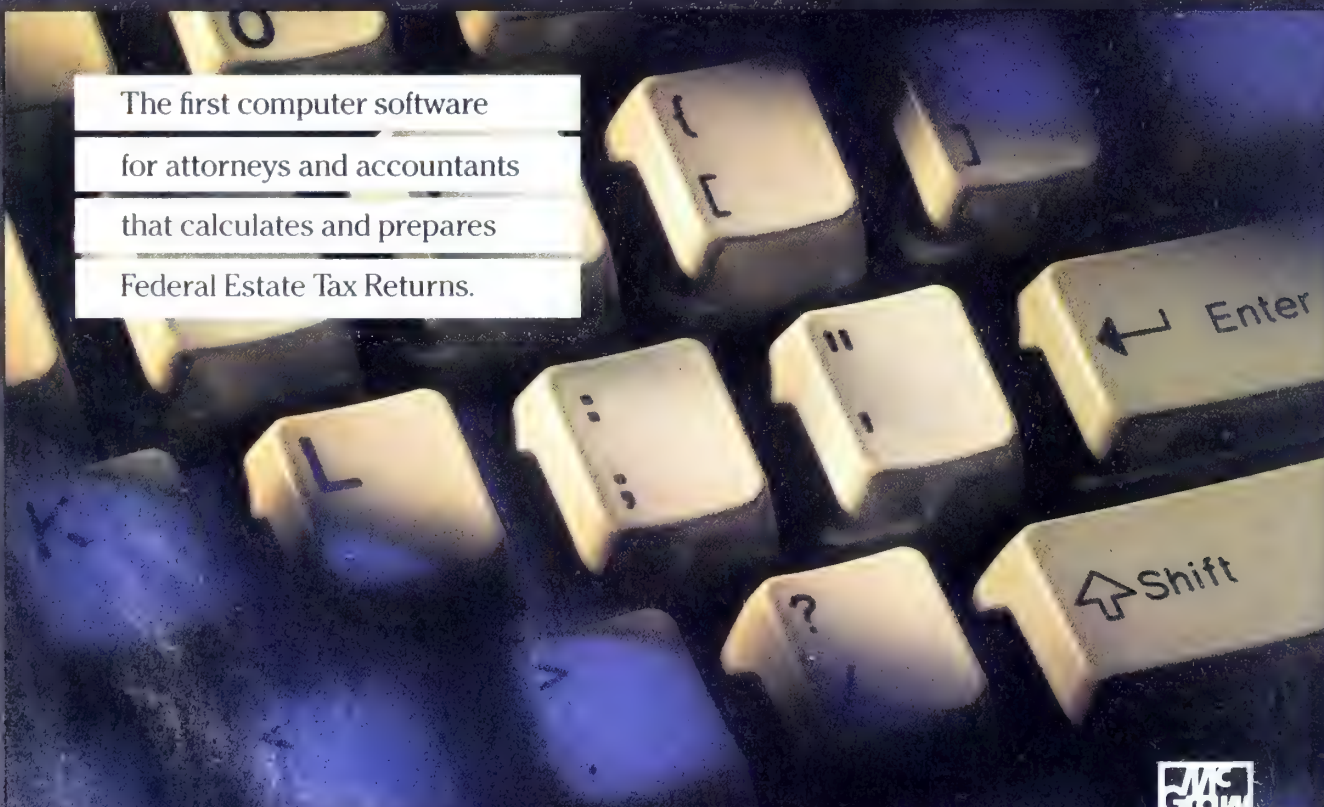


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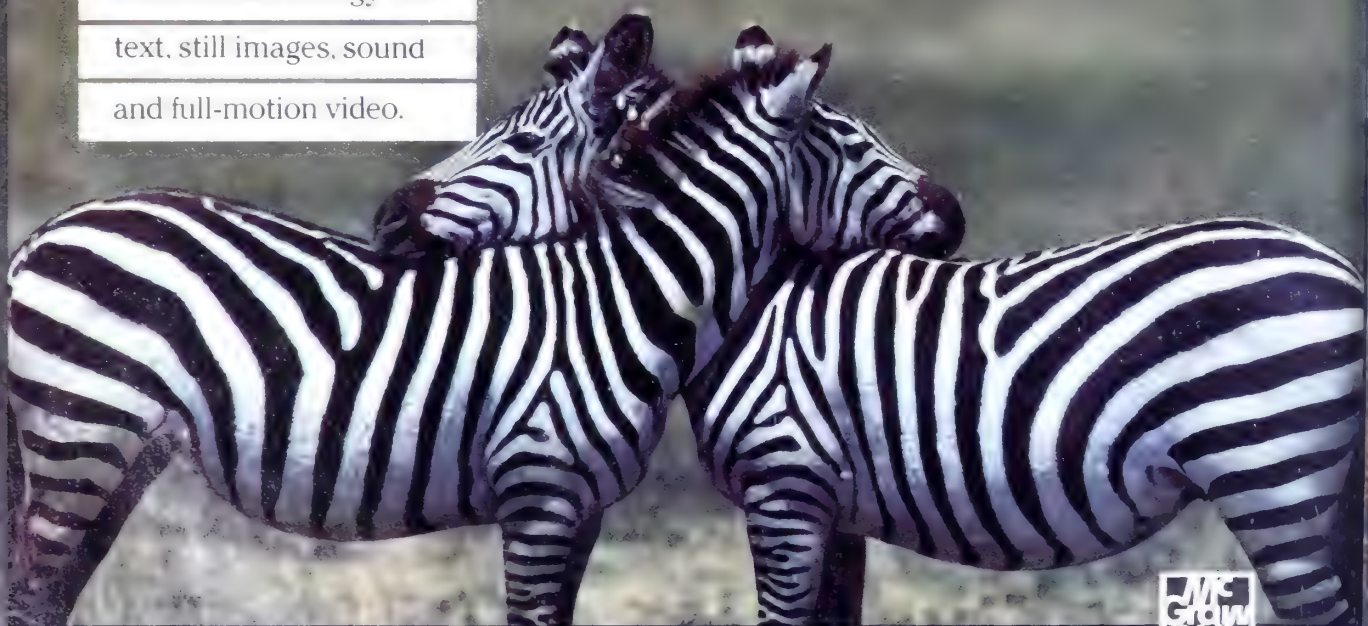


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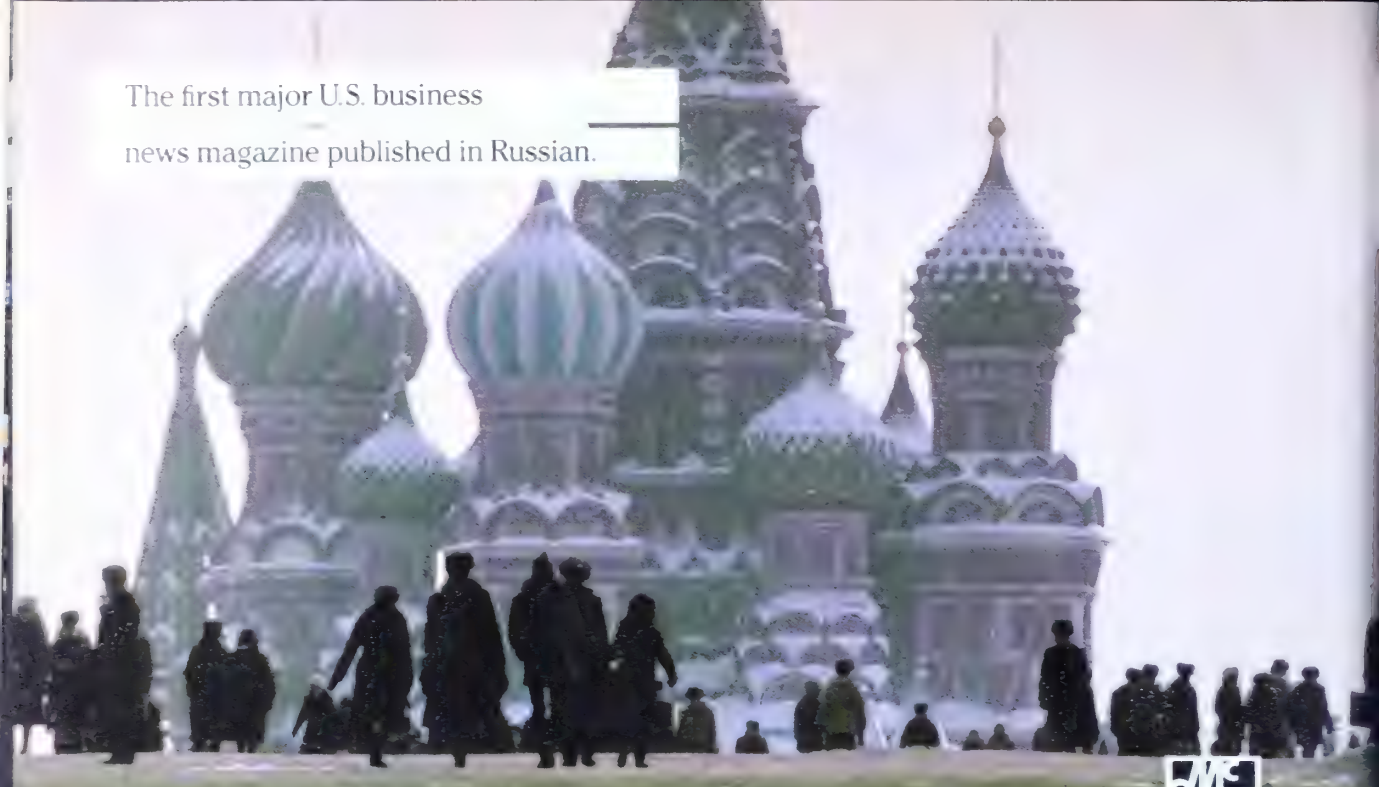
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Prize Chart

1st Place	Mark VIII + \$2,000
2nd Place	\$1,500
3rd Place	\$1,250
4th Place	\$1,000
5th Place	\$900
6th Place	\$800
7th Place	\$700
8th Place	\$600
9th Place	\$500
10th Place	\$400
11th Place	\$350
12th Place	\$300
13th Place	\$250
14th Place	\$200
15th Place	\$100

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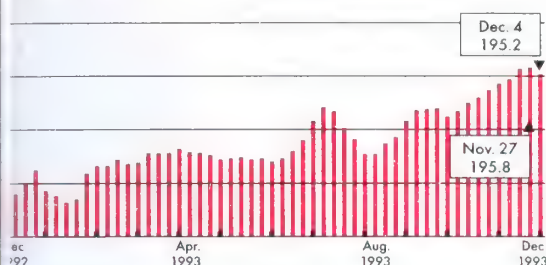
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BusinessWeek Index

PRODUCTION

in last week: -0.3%
in last year: 6.4%

1967=100 (four-week moving average)

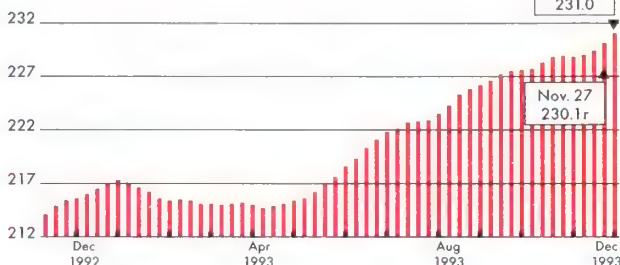


The production index fell during the week ended Dec. 4. Seasonally adjusted production plunged, due in part to labor disturbances. Production of autos, trucks, steel, and lumber declined as well. Steel and crude-oil refining output and traffic rose, while paperboard and paper output were unchanged from the week. Before calculation of the four-week moving average, the index was 193.2, from 194.

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: 0.4%
Change from last year: 7.1%



The leading index rose moderately in the week ended Dec. 4. Higher stock prices, lower bond yields, and faster growth in real estate loans indicate better future expansion in the economy. But a plunge in materials prices and a jump in large-business failures, along with slower M2 growth, are negative growth signals. Before calculation of the four-week moving average, the index rose to 232.1, from 230.6 in the previous week.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
(11) thous. of net tons	1,850	1,856#	9.2
(11) units	148,301	149,084r#	6.4
2(11) units	110,404	112,054r#	11.6
POWER (12/11) millions of kilowatt-hours	57,784	57,218#	-5.4
REFINING (12/11) thous. of bbl./day	13,693	13,846#	4.1
(1) thous. of net tons	18,207#	15,110	-8.4
RD (12/4) thous. of tons	819.4#	832.1r	1.5
(4) thous. of tons	801.0#	811.0r	2.4
(2/4) millions of ft.	467.2#	309.4	-3.6
IHT (12/4) billions of ton-miles	22.8#	17.8	2.7

American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SFPA, Association of Railroads

CURRENCY EXCHANGE

	Latest week	Week ago	Year ago
YEN (12/15)	110	109	123
MARK (12/15)	1.71	1.71	1.57
POUND (12/15)	1.48	1.49	1.57
FRANC (12/15)	5.86	5.87	5.35
DOLLAR (12/15)	1.33	1.32	1.27
INC (12/15)	1.47	1.47	1.41
PESO (12/15) ¹	3.113	3.104	3.118

¹Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

COMMODITIES

	Latest week	Week ago	% Change year ago
15) \$/troy oz.	385.600	382.300	14.3
AP (12/14) #1 heavy, \$/ton	139.00	137.50	50.3
FS (12/14) index, 1967=100	221.7	222.3	8.7
2(11) c/lb.	82.0	74.5	-20.4
A (12/11) c/lb.	52.3	50.8	-4.1
(1/11) #2 hard, \$/bu.	3.93	3.85	4.0
2(11) strict low middling 1-1/16 in., c/lb.	69.95	59.14	33.0

London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals as City market, Memphis market

in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (12/10) S&P 500	465.52	462.80	7.0
CORPORATE BOND YIELD, Aaa (12/10)	6.86%	6.95%	-14.3
INDUSTRIAL MATERIALS PRICES (12/10)	93.5	93.4	-3.6
BUSINESS FAILURES (11/29)	360	320	-21.2
REAL ESTATE LOANS (11/27) billions	\$408.4	\$405.7r	1.1
MONEY SUPPLY, M2 (11/25) billions	\$3,513.4	\$3,513.8r	1.4
INITIAL CLAIMS, UNEMPLOYMENT (11/23) thous.	322	338	-0.9

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
CONSUMER PRICE INDEX (Nov.)	145.8	145.5	2.7
RETAIL SALES (Nov.) billions	\$178.9	\$178.2r	7.1
INDUSTRIAL PRODUCTION (Nov.) total index	113.2	112.2	4.4
CAPACITY UTILIZATION (Nov.)	83.0%	82.4%	2.7

Sources: BLS, Census Bureau, Federal Reserve Board

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (11/29)	\$1,127.3	\$1,124.4r	10.5
BANKS' BUSINESS LOANS (12/1)	273.5	272.4r	-2.8
FREE RESERVES (12/8)	1,154	1,013r	54.7
NONFINANCIAL COMMERCIAL PAPER (12/1)	159.4	159.7	5.6

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (12/14)	2.95%	2.67%	2.93%
PRIME (12/15)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (12/14)	3.35	3.42	3.68
CERTIFICATES OF DEPOSIT 3-MONTH (12/15)	3.25	3.33	3.44
EURODOLLAR 3-MONTH (12/10)	3.33	3.38	3.54

Sources: Federal Reserve Board, First Boston

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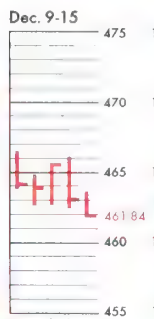
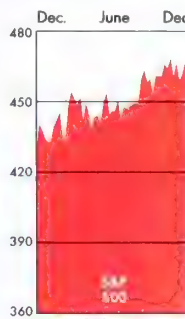
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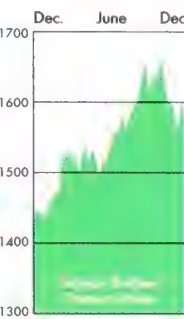
MARKET SUMMARY

This week in the financial market, inflation worries pumped the bond market, and the stock market extended into stocks, mostly blue chips. The Dow Industrial average fell on Dec. 15, with the malaise Monday day helped along by a drop in Eastman Kodak. The off-week was accompanied by a in bearish sentiment, but call ratio sentiment improving more strongly into territory. So the decline was short-lived.

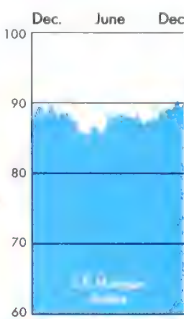
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

	Latest	% change Week	% change 52-week
INDUSTRIALS			
DOW JONES INDUSTRIAL AVERAGE	3716.9	-0.5	14.2
COMPANIES (S&P MidCap Index)	173.3	-1.1	11.8
COMPANIES (Russell 2000)	249.8	-1.8	17.5
COMPANIES (Russell 3000)	265.8	-1.1	8.2
FINANCIAL STOCKS			
(FINANCIAL TIMES 100)	3278.8	0.0	20.0
(NIKKEI INDEX)	17,489.2	5.9	1.3
(TSE COMPOSITE)	4225.6	-1.9	28.2

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.09%	3.14%	3.29%
30-YEAR TREASURY BOND YIELD	6.29%	6.17%	7.44%
S&P 500 DIVIDEND YIELD	2.63%	2.75%	2.86%
S&P 500 PRICE/EARNINGS RATIO	22.5	22.8	23.9

TECHNICAL INDICATORS

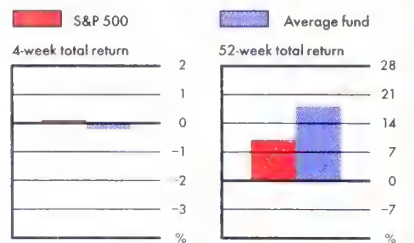
	Latest	Week ago	Reading
S&P 500 26-week moving average	457.3	456.6	Positive
Stocks above 26-week moving average	45.9%	51.1%	Neutral
Speculative sentiment: Put/call ratio	0.43	0.41	Positive
Insider sentiment: Vickers sell/buy ratio	1.81	1.95	Positive

INDUSTRY GROUPS

	4-week	% change 52-week	Strongest stock in group	4-week	% change 52-week	Price
TECHNOLOGY						
TECHNOLOGY CONTROL	16.0	-25.9	WMX TECHNOLOGIES	16.9	-31.4	27 3/8
TECHNOLOGY	10.1	11.1	INCO	13.0	15.5	26 1/8
TECHNOLOGY	9.6	36.2	NATIONAL MEDICAL ENTERPRISES	13.0	8.3	13
TECHNOLOGY	9.5	91.0	HILTON HOTELS	17.2	29.3	54 3/8
TECHNOLOGY	6.5	16.9	GENERAL ELECTRIC	8.6	22.2	102 3/8
TECHNOLOGY LAGGARDS						
TECHNOLOGY LAGGARDS	-14.2	-3.5	MAXUS ENERGY	-26.9	-26.9	4 3/4
TECHNOLOGY LAGGARDS	-12.7	-15.9	LIMITED	-21.4	-35.3	17 7/8
TECHNOLOGY LAGGARDS	-10.2	11.0	ROWAN	-13.9	3.3	7 3/4
TECHNOLOGY LAGGARDS	-7.7	-32.3	GENESCO	-16.0	-38.2	5 1/4
TECHNOLOGY LAGGARDS	-7.4	53.8	NATIONAL SEMICONDUCTOR	-11.9	37.2	14 3/4

MUTUAL FUNDS

	%	LAGGARDS	%
4-week total return		4-week total return	
WILLIAMS LYNCH LATIN AMERICA B	10.3	EQUITY STRATEGIES	-17.4
WILLIAMS LYNCH LATIN AMERICA	9.2	ALLIANCE COUNTERPOINT C	-15.2
WILLIAMS LYNCH EMERGING MARKETS	8.9	STATE STREET RESEARCH GLOBAL ENERGY A	-14.8
52-week total return		52-week total return	
WILLIAMS LYNCH STRATEGIC INVESTMENTS	239.2	PILGRIM CORPORATE UTILITIES	-17.5
WILLIAMS LYNCH SERVICES GOLD	106.2	INVESCO STRATEGIC ENVIRONMENTAL SERVICES	-13.0
WILLIAMS LYNCH INTERNATIONAL INVESTORS	102.5	INVESCO STRATEGIC HEALTH SCIENCES	-11.6



RELATIVE PORTFOLIOS

	Foreign stocks	Treasury bonds	Gold	U.S. stocks	Money market fund
Investment at the present \$10,000 one year ago portfolio	\$13,234	\$12,087	\$11,547	\$10,929	\$10,214
Percentage change in total returns	+0.56%	-1.58%	+2.68%	-0.79%	+0.04%

This page is as of market close Wednesday, Dec. 15, 1993, unless otherwise indicated. Stocks include S&P 500 companies only; performance and share prices are as of market close.

Dec. 14. Mutual fund returns are as of Dec. 10. Relative portfolios are valued as of Dec. 14. A more detailed explanation of this page is available on request.

THE NEW RUSSIA'S BAD OLD INSTINCTS

To Western eyes, the elections held in Russia on Dec. 12 produced ominous results. Yes, Boris Yeltsin succeeded in obtaining approval of the draft constitution and thus can claim constitutional legitimacy. But the elections of candidates backing the party of ultranationalist Vladimir V. Zhirinovskiy raised the specter of a great leap backward into a new and even uglier version of the former Soviet empire or even the Czarist imperium.

To counteract this strong and growing extremist threat, all reform parties must stop their bickering and band together. And it's time for doctrinaire government reformers such as Yegor Gaidar and Boris Federov and their Western advisers to ease up and recognize that many Russians voted for the extremists as a protest against "shock therapy."

Western economic advisers such as Harvard University's Jeffrey Sachs argue that their policies of shock therapy never actually had a chance to work because the central bank sabotaged economic reform. True enough. But the perception in Russia is that a rigid reformist ideology has dealt a body blow to the economy of a once-great nation.

Now, instead of struggling to meet International Monetary Fund targets for fiscal discipline, the government should focus on designing a sturdy social safety net for pensioners and the unemployed. Instead of simply cutting loose newly privatized companies, the government should help shore up select companies with government aid. Instead of letting new businesses develop in a haphazard free-for-all, the government must dedicate itself to rooting out corruption and controlling the growth of organized crime's influence in business. Instead of focusing on the center, the government must design taxes and regulations so that more power devolves to the regions.

None of this means that economic stabilization—the achievement of monetary and fiscal discipline—should be abandoned as an objective. But hard and fast rules for achieving that objective should be eased. The reformers must coalesce on these issues and rob their critics of their ammunition. Otherwise, Russia faces a far more troubling prospect than temporal budget overruns: the rise of a revanchist leadership, intent on restoring to Russia its empire. Fascists can be democratically elected, too.

INVESTORS, THE GRASS IN THE U.S. IS STILL GREEN

Investors in the U.S. have reaped rich rewards so far in the 1990s. The bond market staged one of its strongest rallies ever, and the stock market powered its way to record highs.

Going forward, what kind of returns can investors in the U.S. bond and stock markets expect? These days, it seems that the answer for many Wall Street market mavens

is "not much." The U.S. markets simply aren't attracting them. Dividend yields are too low, price-earnings ratios are too high, and interest rates are poised to rise instead, eye-popping returns lie abroad, in European bond and emerging-country markets.

Perhaps. But we suspect that those who voice these worries about the U.S. markets underestimate the economic fundamentals. As the rest of the industrial world languishes, U.S. corporate profits are poised to rise by more than 10% next year. American companies have boosted their productivity in recent years by overhauling the workplace and investing in new technologies. In sharp contrast, Japanese and European companies have just begun a painful restructuring process.

What's more, fears of rising inflation and interest rates in the U.S. are overblown. With the drop in the price of oil, inflation in this coming year could possibly fall below the 2.7% annual rate. That means fixed-income investors enjoy decent inflation-adjusted returns even if long-term interest rates stay around current levels.

This is not to say that investors should follow an isolationist policy. Diversification is a hallmark of modern portfolio management. It clearly pays to spread investment across a wide range of markets to reduce overall risk. The trend toward global financial-market integration suggests that investing abroad is easier and safer than ever before. For the U.S. investor, the increased opportunities abroad are only a good thing. But they should not distract the investor from the powerful possibilities at home.

HOLD THAT PILL! HEALTH CARE IS ON THE MEND

Who says markets don't work in medicine? In the last few years, employers have been cutting back on their health-care costs. And for the last few months, the Clintons have given market forces added impetus by jawboning the medical industrial complex into cutting back on its costs and prices.

These efforts are paying off. Since May, medical costs have risen at a 4.5% annual rate, down sharply from the 7.4% rate. Given that the consumer price index doesn't include discounting in hospitals and doctors' offices—and the poor job measuring quality improvements—it's likely that medical prices are rising no faster than general inflation would be the first time that has happened since the 1970s.

The news comes in time for Washington to rethink the Clinton Administration's sweeping plan to overhaul American medicine. President Clinton's health-care reform plan is based around loose price controls and heavy government intervention. Congress, however, should remake the Clinton plan to build on the market's recent advances, leveling the playing field for insurance buyers and encouraging private purchasing cooperatives, not giant government-run purchasing alliances.

If Washington wants its health-care program to work, it will learn that private markets can rein in costs far more than bureaucrats ever will.



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